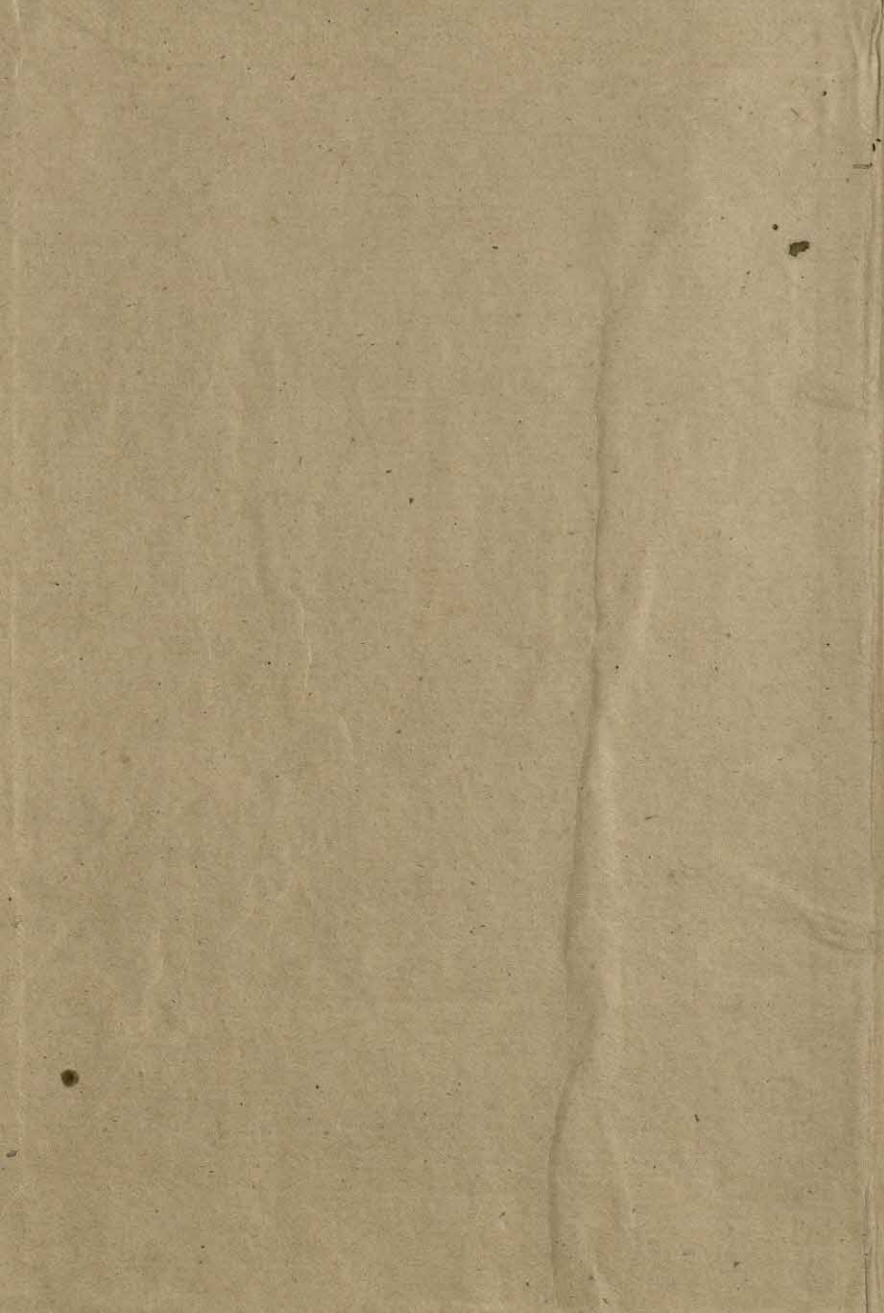


ELEMENTS OF CIVICS

SEVENTH EDITION

H. S. CHATTERJEE M.A.



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ELEMENTS OF CIVICS

(with Economics)

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Head of the Department of Commerce,
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SEVENTH (REVISED) EDITION



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PREFACE TO THE SEVENTH EDITION.

In this new edition I have thoroughly revised the book and have made it up-to-date in all its sections. The portion on General Economics has been specially rewritten. A supplement on the British Constitution has been published for the benefit of the Dacca University students. My thanks are due to all teachers of Civics in the different Universities of India for the kind patronage extended by them to this book and also to the Board of Economics and Politics of the Nagpur University for recommending it as a Text-book for Intermediate Examination. Finally, I acknowledge my indebtedness to my esteemed colleagues, Profs. M. M. Mookerji, and B. Dutta, from both of whom I received very valuable help.

Hope the book will receive the same patronage from teachers and students alike as had been the case with the previous editions.

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BALLYGUNJ. }

H. S. C.

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THE HISTORY OF THE UNITED STATES

THE HISTORY OF THE UNITED STATES
FROM 1789 TO 1861
BY J. W. FULTON
NEW YORK
1861

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ELEMENTS OF CIVICS

BOOK I

CHAPTER I

DEFINITION AND SCOPE

I. Definition

Popular definition.—Civics* has popularly been defined as "*that part of Political Science which is concerned with the rights and duties, both civil and political, of citizens.*" However incomplete the definition may be the central fact remains that the Science is primarily concerned with the citizen.

Civics concerns the whole of a citizen's life.—*The above definition is, however, neither conclusive nor exhaustive.* A mere study of the citizen's '*civil and political relations*' with the state does not comprise the whole subject-matter of Civics. Practically, the *subject-matter of Civics extends over every thought and action of the citizen*,† and no one aspect of his life can be studied fruitfully in isolation from others.

* The term "Civics" is derived from the Latin words *Civitas* (or city-state) and *Civis* (a citizen). Thus Civics implies a study of man as a citizen of a state.

† "Our *modern citizen* is a social being with connections all round him in art and science, with roots in the past and aspirations for the future—an entity of greater richness and interest. It is with this fuller idea of citizenship and with the citizen as a member of an ever-enriching community that modern civics deals."—E. M. White.

Final definition.—"Civics may therefore be defined as that useful branch of human knowledge which deals with everything relating to a citizen (*e.g.*, his social, intellectual, economic, political and even religious relations) ; past, present and future: local, national and human."*—E. M. WHITE.

II. The Scope and Contents of Civics

The theoretical scope of study is vast.—Though Civics is the youngest branch of human science, it is not the narrowest. It is rather all-embracing.

Dr. Beni Prasad limits the scope of Civics to the "analysis and improvement of social life with special reference to the neighbourhood and the duties of man." The study of Civics should promote independent thinking, provoke imagination, deepen the sense of social sympathy and encourage social service.

VAST CONTENTS OF CIVICS.—The study of Civics embraces the study of the whole man, his past, present and future: his geographical environment on which depends his economic welfare, his social and political environment, his economic environment and even his religious life. Thus Civics, according to Prof. Geddes "*is the application of social survey to social service.*"†

But practically we limit the Scope to:—

(1) **Municipal Citizenship.**—Citizenship is understood as primarily *local or municipal*, that is to say, a citizen in the first instance is understood to be a member of some

* Mr. F. J. Gould defines Civics as "the study of institutions, habits, activities and spirit by means of which a man or a woman may fulfil the duties and receive the benefits of membership in a political community."

† In Professor Geddes's words "*Civics is the application of Social Survey to Social Service.* The aim of Civics is not only to give knowledge of the social institutions and their growth, but also to *inspire active devotion to the community.*"

smaller "political community", of a town or a village and not necessarily of a "state", possessing a distinct set of rights and duties as such.

(2) **And National or State Citizenship.**—*National citizenship to-day is of supreme importance and carries with it rights and duties which are far-reaching in their consequences.*

The ideal of international citizenship is still vague.

The ideal of an *international citizenship* which can conceive of rights and duties as a citizen of the whole world is *still extremely vague and indistinct*. So long as the militant sentiment of race nationalism in the modern states would go strong, the ideal of an international citizenship would remain absolutely unattainable.

III. Civics a Science or an Art?

WHAT IS A SCIENCE?—A science is a body of systematized knowledge and its function is to trace the relation *between cause and effect*.

CIVICS IS A SCIENCE.—In the above sense, *Civics is a Science*. It proposes to gather accurate and definite knowledge about social, economic and political phenomena connected with the life of the citizen. The student of Civics is to analyse, investigate and finally systematize and co-ordinate them in order to draw conclusions and frame laws. *It is thus a science but only a science in the making.*

CIVICS IS AN INEXACT SCIENCE.—Human knowledge is so imperfect and human motives are so various that it is very difficult to lay down any law relating to Civics which can be as exact as the laws of the physical sciences, like Physics and Chemistry. *Civics is thus an inexact science, and its laws are inexact, like the laws of tides.* They merely record a 'tendency' for certain things to happen in a certain way.

CIVICS IS ALSO AN ART.—An art, on the other hand, has some *practical end in view*. It assumes something to be good and desirable, something else to be bad and undesirable and aims to secure the one and avoid the other.

In Civics we begin with certain ideals and seek to reach that goal by constant endeavour. We want to better our health, strength, wealth, education, etc., and for that we adopt various measures. To repeat Professor Geddes' words, "*Civics in the application of social survey to social service.*" The aim of Civics is not only to impart knowledge of the social institutions and their growth but also to inspire an active devotion to the community." So *Civics in a sense is an art or even several arts.*

CIVICS IS BOTH A SCIENCE AND AN ART.—*Civics may thus be regarded as both a science and an art.* But perhaps we may be better justified if we call it a *normative science studying civic phenomena in the light of ideas or standards.**

It is after all a *Social Science* because it deals with man living in society. It is distinct from the physical or biological sciences but not without some interconnection between them.

IV. Relations with other Sciences

Civics and Economics.

Economics is a study of man in the business part of his life. It deals with his wealth-getting and wealth-spending activities,—i.e., it concerns itself in the matter of the production, distribution, consumption and exchange of wealth. On the other hand, Civics seeks to attain among other things the economic welfare of man, i.e., his better material life. Poverty is not only distressing but brings about the degradation of man. In so far as Economics and Civics both seek to tackle that problem and bring about the economic welfare of man, *they are in a sense complementary sciences.*

Civics and Politics.

Politics is the science of the state. It tries to analyse the essence of the state, its elements and origin, and professes to examine its structure, function, province and end. Civics deals with the citizen

* "It is both a science and an art in the sense that it investigates conditions and seeks to apply the results to the furtherance of human welfare. It works in co-operation with the other social Sciences, specially with Politics, and freely borrows from them all."
—Dr. Beni Prasad in A. B. C. of Civics.

for whom the State exists. Politics deals with the external conditions of good life; Civics deals with the actual rules of that life.*

Between Civics and Politics there is a good deal of common ground to be traversed. Both deal with man as a member of a political society and also with his rights and duties. Both seek to secure the attainment of happiness. The difference between them 'is one of accent and emphasis' rather than of subject-matter. While Civics still narrows its scope to local affairs and interests, the scope of politics has widened and has extended to national and even to international affairs.†

Civics and Sociology.

Sociology is the general science of social phenomena. It covers all knowledge about human life. So within sociology is included Economics, Politics, History, Ethics, etc. Civics as a human science is included within sociology and though civics does not include like sociology, the sciences and arts of Politics, Economics, History, Language, etc., within it, it is an undeniable fact that it accepts their conclusions as premises and enquiries and draws its conclusions from the many sciences and arts. Thus they may be said to be complementary and allied branches of knowledge to Civics, considered both as a science and an art.

Civics and History.

We have already seen that in order to make a useful study, Civics must study the citizen in relation to his past, present and future. (The past fulfils itself in the present, the present is the product of the past and contains within itself the germ of the future.) So Civics has to depend upon history which keeps a record of the past. But the study of history as a mere catalogue of events is useless and fruitless unless it is directed to supply materials about

* Etymologically there is no distinction between the terms Civics and Politics. The Greek word for City was Polis. As with the Greeks each City was the State, the term 'Polis' was used in the sense of the State. The term 'Politics' which was derived from 'Polis' was thus the science which dealt with the State. Again, the Romans who developed the same kind of City States as the Greeks, used the term Civitas for City and so Civics which was derived from Civitas came to be known as the science of the State.

† A. B. C. of Civics.—Dr. Beni Prasad.

institutions, events and measures which have led to the well-being of man. So Civics which draws upon the past and history which records the past are closely related.

Civics and Ethics.

Ethics is the science of morality. It seeks to distinguish between right and wrong and aims to lay down the ideal standard of human conduct. In short, it deals with internal human motives. Civics, on the other hand, deals with external actions of men in society. But we should not overlook the fact that all our civic activities and institutions also aim at attaining some ideal standard and conduct. Thus ethical principles are seen to guide our civic life, e.g., the ideas of right and wrong determine whether we should treat a large portion of mankind as untouchables, should insist upon perpetual widowhood of child widows, etc.

V. The Method of Study

The method of study should be *practical, real*, and also *regional* i.e., must pertain to a region—a village, a town, or a country. We must laboriously and patiently collect facts of social life and classify and systematize them. The study must be supported by independent thinking with a touch of disciplined imagination. But without humane sympathy, mere rationalism can never succeed in social matters. This sympathy, again, must take shape in the form of disinterested social service.*

VI. Importance of the study of Civics

The state exists to-day for the citizen and Civics concerns itself with the needs and responsibilities of the citizen. So the study of Civics is of paramount importance. The

* "Pursued in the right spirit, Civics should exercise a broadening influence on the mind and a liberalising influence on the emotions. It should train the faculties for more effective participation in the larger life of society. Above all, it should deepen the sense of social responsibility and lay the foundations of a well-ordered career of social usefulness."—A. B. C. of Civics, Dr. Beni Prasad.

students of to-day shall be the citizens of to-morrow. Further, civic studies have become more important as the problems of citizenship are becoming more wide and all-embracing and the organization of the state is utilized to-day more and more to secure the welfare of the citizen. Civic studies we have seen embraces the past, present and the future and extends to the social, political, economic, intellectual and even religious life of the citizen. For a study of the *utility of Civics* read F. N. in the previous page.

Questions:

1. What is meant by Civics, and what does it deal with? (Cal. 1927).
2. Comment on the statement:—"Civics is the application of Social Survey to Social Service."
3. What is the justification for teaching Civics in Colleges. (U. P. Inter. Board, 1929).
4. Define Civics and briefly discuss its scope and methods. (U. P. Inter. Board, 1930).
5. What do you understand by the term 'Civics'? How is the subject related to Politics, Economics and Ethics. (U. P. Inter. Board, 1928).
6. Explain the proposition that Civics or Politics should be studied after the manner of exact sciences like Physics or Chemistry. (U. P. Inter. Board, 1928).

CHAPTER II

SOCIETY AND THE INDIVIDUAL

I. Society and the Individual

Human Tendency to Association.

Society has come into being because "*man is by nature a social animal.*"* He is born in society and lives in society. Society is around him and society is within him. He loves company by *nature*. As he cannot without mutual aid and co-operation of his associates procure the prime necessities of life, he *by necessity* craves for society. In Civics we deal with individuals living in society and not with isolated individuals like Robinson Crusoe living in a deserted island. Robinson Crusoe is an exception and not a type. *There cannot usually be any individual living outside society.*

Associative Tendency Culminates in a State.

As civilization advances, the *necessities* or *interests* leading to association become manifold. These interests may be social, political, economic, cultural, religious, etc. All these interests leading to association finally culminate in the formation of the State.

* "There are", says Dr. Beni Prasad, "*three basic reasons why man must be a pre-eminently social creature.*" First, man is born as a helpless babe and he requires fostering care of elders; secondly, social stimulus is required to help him to learn and gain knowledge; thirdly, in childhood he possesses a plastic nature which enables him to gather impressions from his surroundings very rapidly, an education which helps man to function as man.

No antithesis between Society and the Individual.

There is no antithesis between society and the individual. Every individual lives, moves and acts as a member of Society. As the individual improves, the society improves as well. On the other hand, the individual develops in accordance with *opportunities* presented by society.* Man can attain his highest development, in short, can attain self-realisation, if social life allows opportunities for it.

But these opportunities are oftentimes restricted. Mankind is divided into races and nations, into free or independent communities and into fully or partly enslaved masses of population each infected with varieties of manners, customs, usages, superstitions and habits of life. Within the same community again there are divisions based on birth, wealth and callings. Evidently, such artificial distinctions lead to the loss of opportunities for the free growth of the individual.

Society's Aims to secure Human Happiness.

The aim of society is to *confer happiness on individuals* who compose the society. An individual can neither attain self-development nor can attain happiness outside the society.

Just as an isolated individual cannot attain self-development apart from other members of the society, so a nation cannot grow apart from other nations. There is an organic relation between man and man, and nation and nation.

Means to Happiness and Progress.

To attain human progress, we shall have to fight against unjust institutions which hinder man's progress, against status and customs, habits and superstitions, ideas and

* "Man perfected by society is the best of all animals; he is the most terrible of all when he lives without law and without justice." Civics deals with man living in society. He being a political animal cannot live apart from society. (*Read, Lahiri and Banerjea, Chap. I.*)

usages, selfishness and ignorance, influences which dwarf human abilities and stand in the way of a full and free growth of manhood.

By keeping a large section of the people of a country "depressed", we commit no less a crime than what a powerful nation does by economically exploiting and subjecting to ignominy a less martially inclined people or a backward and semi-savage portion of the human race.

II. Evolution of Society or the early State

Evolution of Society.

Man is a social or political animal. From the very first he has shown an inclination to live in communities; this need arose of the facts that he cherished company as well as mutual aid from his neighbours. In short, men sought society by *nature* and *necessity*. But the growth of social life or civil society is not the result of a conscious process.

Society or the early State has grown imperceptibly as a matter of evolution, and was not created. It would be ridiculous to think of an exact date on which the state had come into existence. But it is possible to indicate *the chief influences which have created the state.*

In addition to economic interests, the following are among the chief factors or forces in state-building.*

1. *Kinship.*
2. *Religion.*
3. *Need for Order and Protection.*

I. **Kinship.**—*Family*† was the first organized form of social life. Authority over persons and property was vested in the head of the family, the eldest living male member.

* Read footnote to the Historical Theory in Chap. IV.

† For Family and the Citizen, read, Chap. IX.

Next, the family expanded and a combination of families in a village formed a '*gens*', or '*houses*' or '*clan*', over which the oldest kinsman ruled. The clan, in its turn, widened and formed a '*tribe*,' 'composed of those who traced descent to a common ancestor.' The tribe is ruled over by a chief who unites in himself military, judicial and religious authority. A feeling of unity or kinship persists among the members, and *common interests and a common tradition create that solidarity which is necessary for political life.*

II. **Religion.**—Another important force in state-building is religion. It takes the form of *worship of ancestors*. Ancestor-worship strengthens family organization. Kinship and religion are fused together. Further, among barbaric people *religion greatly helps to subordinate anarchy and teaches reverence and obedience.**

III. **Need for Order and Protection.**—As wealth increased, some regulation concerning *things* as well as *persons*, was needed *internally*. Thus arose crude beginnings of law and government for maintaining order and progress.

"Physical force was essential to keep the early state internally supreme and to protect it from attack by other states. But "will, not force, is the basis of the state."

The emergence of the State was marked by political ideas becoming distinct from mere racial consciousness or religious unanimity.†

* Religion used to supply an important element in consolidating the authority of the ruler over the ruled. At a later date, as a logical sequence the King claimed to rule on divine right. (*Lahiri and Banerjea*).

† Burgess states:—"The state is the gradual and continuous development of human society, out of a grossly imperfect beginning, through crude but improving forms of manifestation towards a perfect and universal organisation of mankind."

"In the long process of evolution, it is not unlikely that *kinship* supplied the psychological, and *force and geographic conditions* the physical factor, for the formation and growth of the early states. *Economic causes and religious impulses* have also possibly helped to build—as well as to destroy—states and empires. Later on *race-consciousness* and *national feeling* ushered in the democratic state. *Nor has the state yet reached its final stage.* It is this progressive adaptation of human organisation to human needs that holds together the structure of civilization."—LAHIRI AND BANERJEA.

Other Factors.

Some say that the state is the *handiwork of God*, others are of opinion that it is based on *physical or brute force*, while the consensus of opinion is in favour of tracing its origin in the *consent and contract* of the members composing it. But none of the statements are absolutely correct.† (Read "*The Erroneous Theories of the Origin of the State*", in Chap. IV).

The Emergence of the Individual.

A study of the relation of the individual with the state from the ancient to the present times reveals how gradually the individual was enthroned.

In Ancient India the whole existence of the individual depended upon and was subject to the state. *In Greece* the state was all in all, the citizen was nothing. He lived for the state. *In Rome* the State for the first time recognized the legal rights of the individual citizen which the state was to protect. *In the Middle Ages* the Teutons first rejected the idea of the omnipotence of the state and emphasized individual freedom. *The Christian Church* first proclaimed the dignity of man. *In the Renaissance period* Machiavelli brought in a re-action by declaring that the state is the highest form of existence. *Modern Political Theories* put emphasis on the individual and hold that the *state exists for the individual and not the individual for the state.*

CHAPTER III.

THE STATE.

I. The Essential Elements of a State.

State defined.

Civics is the science of citizenship. But a citizen cannot live outside the State. So at the outset we need understand what is a State. There is a distinct science known as Politics,* the object of which is the study of the State.

Woodrow Wilson has thus defined the State:—"A State is a people organized for law within a definite territory."

Prof. Garner has, however, given the most succinct definition:

"It is a community of persons more or less numerous, permanently occupying a definite portion of territory, independent of external control and possessing an organized government to which the great body of inhabitants render habitual obedience."

On analysis we find the definition to consist that every state must have (1) a population, (2) a definite territory, (3) freedom from foreign control, (4) and a form of organized government.

* POLITICS OR POLITICAL SCIENCE.—"It is the science which is concerned with the state, which endeavours to understand and comprehend the conditions under which the state is possible, analyses its essential nature, describes the various forms which states have assumed in the course of history and the functions which the state exercises or claims to exercise."

Essential Elements of a State.

(1) Population.

Population is the first essential element of the state. Every state must be inhabited by a number of people. An uninhabited desert can never constitute a state.

There is no definite normal number as to the size of the population of a state.* Aristotle laid down the principle that it should be large enough to be self-sufficing and small enough to be well-governed. Prof. Garner says, "the population must be sufficient to provide both a governing body and a number of persons to be governed, and of course sufficient to support a state organization."

The population of a State is composed of citizens, aliens, and subjects. Citizens are those who owe allegiance to the state and enjoy both civil and political rights. *Aliens* are those who owe allegiance to a foreign State. The term *subjects* may be used to denote those persons who are passive members having no share in the public or political power. In one sense, however, every citizen is a subject in so far as he owes allegiance to the sovereign authority.

(2) Territory.

NO SUCH THING AS A MIGRATORY STATE.—*A permanent relation of the people to the soil is necessary for the continuance of the State. The people of a State must have a definite territory.* Nomadic or wandering peoples, e.g., the Jews before they settled in Palestine and the German tribes after the break-up of the Roman Empire, can never be said to have comprized states. There can be no such thing

* "But the ability, devotion and character of the population determine, to a great extent, the efficiency of the State in promoting general welfare." (Lahiri and Banerjea, Chap. III.)

as a migratory state. *Sovereignty is no longer considered personal but territorial.**

The Size is not of Mean Importance.

The area of a state, however, is not of mean importance to-day. The size of a state not only determines "its capacity for self-defence, its power and influence in the family of nations, but to some extent also the form of its governmental organization and its activities." But the greatness of a state can never be measured by its size. We can compare the cases of Great Britain with Russia and of Japan with China.

Why the Tendency is for Bigger States.

The modern tendency is towards bigger States. For the support of an increasing population and an expanding commerce there is a scrambling among European nations to take possession of territories of peoples less martially inclined and equipped. *Smaller States are now also found combining among themselves, (i.e., federating) as a precaution against encroachment by their powerful and greedy neighbours.* So have arisen the American, German and Italian federations. *Finally, the larger the area, the greater is the opportunity for the community to direct its opposition to a tyrannical government.*

Size and Democracy.

Formerly, when the system of direct participation in the administration of the State by all the citizens obtained, e.g., in the Greek City States, smaller size of the State was normal and necessary,

* That is to say, the sovereign authority in a state does not rest with the person of a ruling chief but it refers to a definite territory over which the state rules.

† A REPRESENTATIVE SYSTEM is that in which each and every citizen does not actively participate in making laws for the state or for carrying on its executive and judicial functions as had been the case with the ancient city states of Greece, but the citizens elect representatives and a number of such representatives form the legislature. the majority party in which carries on the administration.

but with the spread of the monarchical forms of government, and later on with the introduction of the representative system, larger size has become the rule. So it is a mistake to assert that bigger size is opposed to democratic form of government. In modern times the important democratic republics are very large in size, *e.g.*, U. S. A. and France.

(3) Government.

There must exist in a state some organization through which the collective will may be ascertained and expressed and the ends of the state realized. Either as a result of mutual agreement (when the population is composed of the same people), or as a result of compulsion (when a stronger people has conquered a weak people), some form of political machinery or *government*, which either receives or compels obedience,* must be created to form a state. If in a state there is none who possesses authority and none who obeys, remarks Bluntschili, there is no state but only a condition of anarchy.

(4) Sovereignty.

The most important mark of the state is sovereignty. It popularly means the original, supreme, and unlimited power of the state to impose its will upon all persons, associations and things within its jurisdiction. Thus viewed *internally*, it means that a state has complete authority over all the individuals and associations of individuals that compose it; and viewed *externally*, it means that a state is completely independent of the control of any other state.†

* "The character of the government must be such as to be able to command respect for its directions." (Lahiri & Banerjea. Chap. III).

† "It was the need for an authority to guide and control the actions of men, that gave birth to the State. Thus the power to frame and enforce rules of social conduct is of the very essence of the state. *The supreme authority*, by virtue of which the State enforces its orders on the citizens, is termed sovereignty." (Lahiri and Banerjea, p. 67).

This supreme authority is necessary for two reasons, *first*, for the hegemony of the state, and *secondly*, for the liberty of the individual citizen. Unless there be a sovereign power within the state individual liberty would be at stake, because in the absence of a sovereign power within the state who is to protect an individual citizen from an encroachment upon his rights by another citizen.

Nature and Purpose of the State.

Aristotle said that the state exists to promote the good life. Freedom, on which depends the growth of a vigorous political life, cannot exist without state authority. Anarchy is the antithesis of state life. Justice can only be secured within a strong state. The state is a common fellowship of men designed to promote common good. Authority and coercion are its accompaniments and instruments.

II. State, Society, Government distinguished.

The State and Society.

The State is also a society but it is different from all other societies in this that it is all-embracing and its object is not limited to any particular purpose. So the idea of a 'State' differs fundamentally from a 'society' in the following respects:—

(a) *When we speak of the state, we refer to a particular territorial area, e.g., Great Britain, France, Japan etc.; when we speak of Society we do not refer to any definite area, e.g., the English society in Calcutta, etc.*

(b) *A society may cover much wider areas than what can ever be conceived of a state, e.g., the Brotherhood of Free Masons, the association of the Boy Scouts, etc., extend all over the globe. A state enlists its members from within the state, while an association draws its members from any part of the globe.*

"While religious bodies, labour organizations, or cultural associations may enlist membership from any part of the world, the

jurisdiction of the state is restricted to its territory." (*Lahiri and Banerjea.*)

(c) The term State refers to only *organized units*, while the term society refers to *all human communities*, whether advanced or barbaric, e.g., the French society, the Red Indian society, etc.

(d) *The state is organized for the common object of promoting the political life of its people, while within the same state there may be many societies (e.g., literary societies for the development of arts and science, medical societies, etc.) to achieve distinct aims and objects.* In short, associations are formed to further particular interests, but the state is all-pervading. ✓

(e) *Membership of a private or voluntary association or society may be withdrawn at pleasure but membership of the state cannot be relinquished or withdrawn without definite and prolonged procedure.*

"It differs from all other associations, in that the membership of the state, with the duties attached to such membership, is compulsory and not of a voluntary nature." (*Lahiri and Banerjea.*)

(f) *One can become the member of a number of associations, but at the same time one cannot become a member of more than one state.*

(g) *The state is permanent but a society is short-lived.*

(h) *An association exerts its authority or power over its members through mere persuasion, but the state enforces obedience through coercion.**

The State and Government.

In political science we must be very careful to distinguish between the two terms *state* and *government*, which are, however, used synonymously in the popular language.

A state, we have seen, is the politically organized people of a definite territory, while Government is the organization or machinery through which the will of the state is expressed.

* "The membership of the state is, in certain respects, *intensive*, as well as *extensive*. A man cannot owe allegiance to more than one state; but the state, as the supreme co-ordinate body within its territory, has, on the other hand, no limit to its authority." (*Lahiri and Banerjea.*)

Government, as we have seen, is only *one* of the essential elements of the state.

Dr. Garner thus defines Government.

"The government is the collective name for the agency, magistracy, or organization through which the will of the state is formulated, expressed and realized. The government is an essential mark of the state but it is no more the state itself than the brain of an animal is the animal itself or a board of directors of a corporation is itself the corporation."

Points of Distinction between State and Government.

(1) *All the citizens are comprised in the State: but a very small number comprise the Government.*

Government includes the sum-total of all the members who compose the legislature, the executive, and the judiciary. "It refers," says Prof. Leacock, "to the person or group of persons in whose hands the organization of the state places for the time being the function of political control."

(2) *A State is permanent, while Government is short-lived.*

In France, we all know, monarchy was replaced, since the Revolution, by the Republic, not once or even twice, but three times. Would it be correct to say, under the circumstances, that the French state went out of existence so many times? No, they were mere occasions of changes of Government, and not of the destruction for so many times of the French state. In our time, changes of Government take place through less violent ways. The Government which loses its majority in the legislature resigns and the party in majority then forms a new government.

(3) *The State is an abstract term, an idea which exists in mind only, while Government is distinctly concrete.*

Government acts, the State does not. It is government which goes into war and enters into treaties and not the State.

(4) *Whereas all States are exactly similar in nature, Governments may be of a variety of types, e.g., despotic and*

democratic, unitary and federal, parliamentary and non-parliamentary, etc.

(5) *An individual has rights against the Government but never against the State.* The State is the source of all rights—both individuals and governments derive it from the State. But none can enforce it against the State.

Is India a State?

We have seen that the essentials of a State consist of (a) population, (b) territory, (c) government, and (d) sovereignty. India possesses the first three characteristics, but not the fourth,—external and internal independence, the most essential quality of a State. She has not even attained the Dominion Status and as yet is a mere dependency.

Britain through her Parliament not only controls India's foreign relations but also exercises full control over her internal affairs. Unless India becomes autonomous both internally and externally, she can never be called a State.

Are Dominions States?

The dominions of Canada, Australia, New Zealand and South Africa, and the Irish Free State have all been recognized as enjoying 'dominion status' by the Statute of Westminster (1931). The Statute recognizes the dominions to be (a) *autonomous self-governing communities* within the British Empire, (b) *equal in status*, (c) *no one being subordinate to another*, even to Great Britain, (d) *united by a common allegiance*, and (e) *their association being free and coercion absent, each possessing the freedom to secede from the British Empire when it so likes.*

The elements of dominion status enumerated above purport to create states within states. Practically speaking, the Statute of Westminster has made the authority of the

British Parliament nominal over the dominions. Though, strictly speaking, the dominions cannot be called separate states, yet for all practical purposes they enjoy the rights and status of states. *They are states in effect though not in law.*

"The self-governing dominions are not states according to a strict definition of the term. Though independent for all practical purposes, they are theoretically subordinate to the British Parliament, as they are not vested with sovereign powers, the most distinguishing mark of the state."—(Lahiri and Banerjee, p. 18).

Questions:

1. What are the essential characteristics of the State. Point out the distinction between state and government. (U. P. 1930), (1931), (1934).
2. "A state is a people organized for law within a definite territory." Explain (C. U. 1927).
3. Distinguish between "Society and State" and briefly discuss their mutual relations. (U. P. Inter. Board, 1930).
4. What is meant by the State? Explain the distinction between State and Government. (Cal. 1937).
5. How would you describe "Dominion Status"? (Cal. 1941).



CHAPTER IV.

THEORIES AS TO THE ORIGIN OF THE STATE

I. Erroneous Theories of the Origin of the State.

Various theories have been advanced to explain the circumstances under which the "State" has come into existence. We may state here some of those theories with the criticisms which have been levelled against them.

(1) The Theory of Divine Origin.

The theory states that "the will of God was made known by revelation to *certain persons* who were his earthly vicegerents, and by them communicated to the people by whom obedience was a religious as well as a civil duty." These favoured persons became kings or rulers, and the ruled were to obey them implicitly as the agents of God on earth. *The theory implies that the State has originated from a divine source.* The implication therefore is that resistance to the king is always unjustifiable and sacrilegious.

CRITICISM.—But the theory has been discarded on the following grounds:—

(a) *The alleged revelation, if there be any, must have been about religious faith* and cannot be about matters secular. The state is a human institution created by human beings.

(b) *The theory supports absolute obedience, i.e., tyranny.* How God can appoint a tyrant and a miscreant as his agent? It is anomalous that Kings who are stated to be the agents of God on earth have generally been found to be men of low moral calibre.

(c) If the kings are the agents of God, then *how can we explain the anomaly of hereditary succession.*

(d) The theory advocates only the *monarchical form of government.*

TRUTH IN THE THEORY.—We can at most interpret the theory to mean that God willed that a king should rule according to the teachings of religion and should be ultimately accountable to Him; that He had implanted in human breast the instinct for order, and religious influences have considerably helped the growth of the state.

CONCLUSION.—To-day, however, the theory has few supporters. The theory was perhaps developed to justify the tyranny of kings who set at naught popular opinion and feelings. The modern idea is that the state is purely a human institution devised and organised by human agency.

(2) The Theory of Force.

THE THEORY.—The theory holds that the state is based on brute force. The might of the stronger has crystallized into a right. Whoever masters power, attains a right to rule. The king rules only so long as he can compel obedience.

CRITICISM.—The theory justifies despotism and is against the idea of freedom which is a spiritual and moral notion. *The real force on which a government rests is the force of public opinion.* War and force have contributed *something* to human progress, but undoubtedly human thought and reasoning faculty have contributed *most*.

TRUTH IN THE THEORY.—Historically speaking, "some of the greatest empires of to-day have been established through "blood and iron" and it is not altogether improbable that we shall see more of blood and iron methods in the future." But that would be an accidental feature. Normal forces, political consciousness, etc., have always predominated state life.

(3) The Social Contract (Compact) Theory.

Before any political society came into existence, isolated individuals used to live in a *state of nature*. Life was not regulated in the state of nature by any law except by the law of nature, *i.e.*, by instincts of reason and principles of *justice*.

The state of nature, according to some, was of ideal felicity and too good to last (Rousseau's view), according

to others, it was intolerable and too bad to be permitted to last (Hobbe's view). So the isolated individuals by mutual agreements among themselves, *each with one another and with all*, formed a *civil society*. *Civil society* may be called the earliest form of *state*.

After the civil society was instituted a further agreement was found necessary between the people as subjects on the one hand, and the heads or leaders of society as *rulers* on the other. By the *contract* the first government was created and authority was placed in particular hands.

Human beings thus passed from a *state of nature* through '*compact*' to a *civil society* (state), and then by a fresh '*contract*' established *government*. We should be careful to note that the '*social compact*' theory represents a theory of the origin of the state, and the '*social contract*' theory represents a theory of the institution of a particular form of government.

CRITICISM.—The following are some of the most important points of criticism of the theory:—

(1) *The theory is unhistorical*.—We have never seen in history that isolated individuals, who were living in a state of nature, have ever established a state by means of mutual compacts. Man is by nature a political animal. He can never have lived an isolated life.

(2) *The theory is illogical*.—It presupposes a very high degree of political consciousness among isolated human beings in a state of nature, otherwise how can they form a state by '*compact*'.

(2) *The theory is illegal*.—A contract presupposes rights and the existence of laws. But how is it possible to have them in a state of nature when no laws and consequently no rights did exist?

(4) *The theory is dangerous*.—As subsequently the "government" was created by a contract between the rulers and the ruled, some interpreted that an opposition to government was never justifiable, while others held that revolution was justifiable at any moment whenever the people thought that the king has broken the contract. *So the theory may be interpreted to support tyranny as well as anarchy.*

IMPORTANCE OF THE THEORY.—By developing the idea that Civil Society rests on the consent, not of the ruler, but of the ruled, the theory became an important factor in the development of modern democracies. It also served a *useful purpose* in its time by combating the claims of irresponsible rulers and of class privileges. The contract theory has also demolished the Divine Theory.

(4) The Organic or Organismic Theory.

The theory is one of the oldest and most popular theory concerning the *nature of the State*. It may be stated as follows:—

Men are by nature “political animals”, and their universal tendency to social organization creates the state. The state is the highest natural organism, like plants and animals, subject to the usual laws of development, decay and death.

Individuals compose the state organism. The various departments of government correspond to the organs of living beings. Rousseau compared the sovereign powers of the state to the head of the individual; the laws and customs to the brain; commerce, agriculture, and industry to the mouth and stomach which prepare and digest the food; and the public finances to the blood.

The state has both a physical and a psychological nature. It feels, it wills, it acts; it is the highest form of organised life—a sort of magnified person.

CRITICISM OF THE THEORY.—The biological analogy up to a certain limit, is harmless and scientifically unobjectionable. There are, it is true, certain grounds of resemblance between body politic (State organization) and human organism but there are other points where the comparison utterly fails. The points are:—

(1) *The resemblance is superficial.*—The animal organism is *concrete*, that is its units or parts are bound together in close contact. If a finger is hurt the whole human frame suffers from pain. On the other hand, the body politic (state organism) is *discrete*. A unit of the state, an individual, may die but the state life is not in the least affected. Moreover, the individual may have other interests outside the state, *e.g.*, religious, artistic, etc. The state regulates the *outward* conduct of the *individual* but not his *motives*.

(2) All natural organisms owe their origin to pre-existing organisms but the state has grown by itself and not out of any previous social or political organization.

(5) The Patriarchal and Matriarchal Theories.

PATRIARCHAL THEORY.—The theory represents that society is the enlargement of the family. The family expands by marriage, adoption, conquest and many other ways. The father of the original family if he lives, or the eldest living member, is acknowledged as the chief or patriarch. The families make the village, the villages make the tribe and the tribes having a common origin unite to form a state.

CRITICISM.—But the theory has been criticized on the ground that the patriarchal family did not everywhere represent the earliest form of family life. Among the Jews, the Greeks and the early Germans, matriarchal family was the rule.

MATRIARCHAL FAMILY.—The theory holds that in the earliest form of family, descent was traced not only through the mother and property did pass in the female line, but even the social groups were ruled by the women, and not by men. This form of family is still prevalent in some parts of the world. In India it still obtains among the Himalayan tribes, *e.g.*, among the Tibetans and the Bhutias, whose women take more than one husband.

CRITICISM.—It is to be remembered, however, that Indo-European Society is essentially patriarchal.

II. The Correct Theory of the State.

The Historical or Evolutionary Theory.

THE CORRECT THEORY.—"We are led to the conclusion," says Prof. Garner, "that the state is neither the handiwork of God (Divine Theory), nor the result of superior physical force (Force Theory), nor the creation of convention or

contract (Social Compact Theory), nor a mere expansion of the family (Patriarchal or Matriarchal Theory)." "It is," says Burgess, "*the product of history*. It is the gradual and continuous development of human history, out of a grossly imperfect beginning through crude but improving forms of manifestation, towards a perfect and universal organization of mankind."

The ultimate basis of the state is to be found in the *sociability of human nature*. Man is by nature a political animal. Instinctive gregariousness, natural sympathy and perception of utility, reinforced with the natural associative tendencies of love, reverence, esteem, admiration, religion, reason and fear *led to the formation of early society*.

* *Family life, bonds of kinship and religion, need for order and protection*,—these created organization and authority, *the crude beginnings of the state*.

* FAMILY is the first organised form of social life. In the head of the family who is the eldest living male, *authority* over persons and property is vested. Here authority first appears. Next, the family expands and a combination of families in a village forms a *gens* or *houses* or *clan*, over which a chief kinsman rules. The clan widens and forms a *tribe*. *Kinship thus furnishes both the spirit of unity that made the state possible, and the organization of its first government*. Next, in the earliest and most difficult periods of political development religion alone could keep under control barbaric anarchy and teach reverence and obedience. Its aid has been evoked each time a new people passed from barbarism to political civilization. Religion has been divorced from politics only in recent times. Its shadow still lurks behind more than one throne. Later on, LAW AND GOVERNMENT became a necessity when wealth increased.

"*The general process by which states were formed is fairly definite*.—It was marked by political ideas becoming distinct from mere racial consciousness or religious unanimity. Political organization also became more authoritative. Custom grew into law, political consciousness developed, and patriotism indicated the new spirit of unity."

Political consciousness first appeared in the minds of a few natural leaders of men, then it did spread gradually by degrees throughout the mass of the population and finally became general. Accordingly, we find that by turns monarchical, aristocratic and democratic forms of states and governments did appear.

The state is still in process of growth and it has not and in the near future is also not expected to attain its final and complete development.

Questions:

1. "The State is the result of brute force." Discuss the validity of this theory of the State. (Cal. 1941).
2. Discuss critically the Social Contract theory of the origin of the State. (Cal. 1939).
3. "The state is a living organised unity, not a lifeless instrument." Discuss the soundness or otherwise of this view. (Cal. 1940).

CHAPTER V.

PEOPLE, NATION, LEAGUE

I. People, Nationality, Nation.

(1) How a People comes into being.

A mere arbitrary or artificial combination of men, or even the voluntary agreement, *pact* or contract between a number of persons or between sects *cannot create a people*.

For the growth or formation of a people, the experiences and fortunes of several generations must accumulate. *A people comes into being by a slow psychological process and gradually develops a type of life and society which differentiate them from others, and constitute the fixed inheritance of their race.*

Marks of a People.

FORCES THAT CREATE A PEOPLE.—(1) *Community of race*.—The sameness of racial origin is an important factor in the formation of a people. But pure races are rarely to be found. Fusion or mixture of races has taken place everywhere.

(2) *Community of Religion*.—The sameness of religion is an important factor in welding a mass of population into a separate people. With the growth of *religious toleration*, the *indirect influence* of religion in the formation of a people has become weaker; yet we cannot ignore its *negative influence* in keeping apart two peoples which have a tendency to unite, for example, the Hindus and the Mahomedans in India.

(3) *Community of Language*.—Sameness of language is the vehicle of recognition among the different members of the same people. It keeps the sense of nationality awake and living.

(4) *Geographic unity, habits and customs, political union, etc.*—Residence in a common territory, the consciousness of being separated from the rest of the world by definite geographical boundaries, the observance of the same customs, a common fortune, interests and culture lead a mass of population to grow into a people.

(5) *Common political aspirations*.—By a fusion of two races a nationality may be formed in a definite region, whenever it agrees to live 'under the same laws and the same state'. India is a case in point. Communal troubles seem only to be a passing phase.

Definition of a People.

So Burgess defines a people as "a population having a common language and literature, a common tradition and history, common customs and a common consciousness of rights and wrongs, inhabiting a territory of a geographic unity."

Another writer considers the test of a people to be simply a "*community of civilization*". The sameness of race is not given much importance as in the case of many people it has been found very difficult to trace it.

A people lacks *political consciousness*, i.e., the *spirit of nationality*, and on that point mainly differs from a *nation*.

(2) Nationality defined.

Nationality may be defined as "*a spiritual sentiment or principle arising among a number of people usually of the same race, resident on the same territory, having a common language, the same religion, similar history and traditions, common interests, with common political association, and common ideals of political unity*". Prof. Zimmern defines it as a form of "*corporate sentiment of peculiar intensity, intimacy, and dignity related to a definite home country*".

When a people is imbued with this spirit of nationality, it *usually seeks to obtain a shape in some form of self-government, usually by the establishment of a new state*.

In short, nationality may be said to be a sentiment akin to an extreme form of patriotism which leads men to seek independence by breaking the shackles of political subjection.

The term 'Nationality' interpreted to imply a Race.

We have defined it as a spiritual sentiment akin to patriotism. Some writers, however, use it in a different sense. They mean by it *a portion of an existing nation living within the boundaries of another nation, e.g., the French nationality in Canada.*

Again, *others identify it with the idea of a people (race) and define it as "a group of men who are united by identity of origin, race, language or by community of traditions, history or interests, quite apart from the bond of the state. A nation may be composed of several such nationalities, e.g., the Marhattas, the Bengalees, etc. Such groups taken together may form a nation, while taken separately each group may be called a nationality"**

Different meanings of the term "Nationality".

Thus we find that the term *nationality* is used in three different senses:—(1) A spiritual sentiment arising among a people; (2) the portion of an already existing nation residing within the boundaries of another nation; (3) a number of races living within a country.

People and Nation.

A nation need not possess all the characteristics necessary to make a people. With the spread of religious toleration, the *religious factor* has become less significant and the bond of *common language* has become of more importance as it creates a common spirit and is the instrument of mutual intellectual intercourse. *Racial origin and community (sameness) of civilization* may be deciding factors in the formation of a people but they are not important elements of a nation. *The crucial test of a nation as distinct from a people seems to be the growth of political consciousness or the spirit of nationality.*

* Lahiri and Banerjea.

(3) Nation defined.

A nation is a society of all the members of a state as united and organized in the state. The nation comes into being with the creation of the state. It is the consciousness, more or less developed, of political connection and unity which lifts the nation above the people.

THE DEFINITION ANALYSED.—A careful analysis of the term 'nation' reveals to us the idea that it is a people with (*plus*) the idea of nationality or political consciousness fully developed. A people with such a consciousness cannot remain in subjection for long to other nations. They endeavour to establish a separate political entity of their own and such attempts culminate in the establishment of a state.

From a People to a Nation.

HOW A PEOPLE BECOMES A NATION.—The present United States of America was formerly a portion of the British Empire. Englishmen and other nationals who emigrated from Europe to America established a large number of colonies. The emigrants had this similarity among themselves that they professed Christianity, were whites, were originally members of free nations, and a majority of them have acknowledged British suzerainty, but as to race, language, literature, customs and traditions they were poles asunder. But the gradual growth of a *consciousness of common political and economic interests* ultimately welded together all the colonies into a Union, all the people into an American nation, and finally the Union or Federation into the State of the United States of America.

A SUMMARY OF DISTINCTIONS.—Our distinction between people, nation, nationality and state may be thus briefly summed up. A nation is a people among whom there is a *growth of political life* and who seeks immediately to fulfil their destiny by the establishment of a state. And the spirit or sentiment which leads a people to establish a state is *nationality*. So the logical evolution in the establishment of a state usually is—As soon as a People imbibe the spirit

of *nationality*, they soon develop a political life which culminates in the establishment of a *State*. Such a people grows to be a *nation*.

II. Nationalism and Internationalism.

Nationalism.

Nationalism* is a spiritual sentiment that goads a dependent nation to become free, and an independent nation to be great and dominant. National independence is the primary condition of national progress.

"The true ideal of nationalism is wholly opposed to love of power and desire for exploitation."

The special quality of a nation is to be developed for the ultimate good of humanity. "Prosperity of nations depends upon common effort and concerted action."

Internationalism.

Mutual hatred, jealousy, suspicion and unhealthy rivalry among nations, which have often culminated in destructive wars and great human miseries, have led men to believe that if every nation be allowed to enjoy political freedom without being interfered with by a powerful neighbour, then they can develop their respective heritages and culture which may ultimately lead to the progress of human civilization. As a result the world will be happier than it is to-day. The whole humanity, when free and aspiring, would make the world happier than a greater portion of mankind kept in bondage by a few powerful nations.

*Etymologically, the term nation means 'racial'. But we must distinguish between racialism and nationalism. A nation is often composed of many races and only very seldom we find a nation to be composed of a distinct (single) race.

Nationalism ends in Internationalism.

"Real nationalism is not necessarily opposed to faith in a world community. On the other hand, the former is regarded as a step to the latter. Unity in diversity harmonises the apparently conflicting ideas of nationalism and cosmopolitanism. It is from this point of view of this ideal that nationalism is regarded as 'linking man with humanity', enriching both." (*Lahiri and Banerjea.*)

Extreme Nationalism is an Evil.

Extreme nationalism breeds suspicion, jealousy, hatred and ill-will among nations. Narrowness, selfishness and aggressiveness follow extreme nationalism. It breeds all the fanaticism which once proceeded from religious frenzy and bigotry. It has evoked sacrifices and have led to the self-immolation of individuals and nations, much of which were wasteful though spectacular.

It may take a *racial* form, such as that of many Christian countries of Europe oppressing the unwelcome Jews, or it may take an *imperialistic* form such as that of Japan and Great Britain crushing the nationalistic movements in Korea and India, respectively. Dr. Tagore has described perverted nationalism as a "*gregarious demand for the exclusive enjoyment of the good things of the earth.*"

The war-weary world once craved for international co-operation, harmony and peace. The talk of a 'parliament of man and a federation of the world' temporarily fascinated man. The idea of super-state seemed to supplant the idea of mono-national (a separate state for each nation) states. The outcome was the *League of Nations*. But the League has thoroughly disappointed the world and has falsified all fond hopes. It has been found absolutely powerless to do justice to oppressed nations and nationalities.

India is neither a State nor a Nation.

The Statute of Westminster, 1931, states:—Great Britain and the Dominions including the Irish Free State,

Canada, South Africa, Newzealand, Australia and Newfoundland are all *autonomous communities* within the British Empire, *equal in status*, and in *no way subordinate one to another* in any respect of their domestic or external affairs.

We may call the Dominion peoples who *enjoy full political freedom* to be nations. Indians who are to all intents and purposes politically enslaved can never be called a nation. The Statute of Westminster does not recognize the autonomous political existence of India. It is as yet a dependency. So the question is *when would India become a nation?*

India is a Nation in the Making.

It is argued by English writers that India with its diversities of races, religions, languages, customs and habits and vast geographical dimensions can never help the growth of a nation. The contention may partially be held as true.

But, broadly speaking, there are two peoples in India, the Hindus and the Mahomedans. They have adopted, again, at many places common language and customs. The growth of religious toleration is expected to bridge the gulf between the two. To crown all the most unifying influence among the two races living under the British rule is their *community of political and economic interests*. Further, a modern nation does not need to possess the same racial origin, history and traditions, the same religion, etc.

India can acquire a nationhood by a joint political demand of all the communities, including both the majorities and the minorities.

Mono-national States.

"In spite of many differences—linguistic, religious and social,—the natural environment of the country and the attachment of the people to their past traditions, have fostered a sense of solidarity. This feeling has been strengthened by the fact of a common adminis-

tration in recent times. Indeed, the signs of a compact Indian nationhood are unmistakable".—(*Lahiri and Banerjee*.)

ONE NATION, ONE STATE.—Every nation has a call and a right to form a state. But as it happens to-day, some states include many nationalities, while a single nationality may include more than one state. But the principle of *nation-state* (one nation, one state) does not support the ideas, (a) that every nationality, however small and weak, should establish a state, (b) that a nationality which lies scattered over wider areas, should establish a state, (c) that irrespective of economic capabilities each nationality should form a state.

RIGHT OF SELF-DETERMINATION.—

President Wilson stated that "all well-defined national aspirations should be accorded the utmost possible satisfaction" through the establishment of mono-national states. *Peoples are to be dominated and governed only by their own consent*. But we have already seen that the right has also its limits.

Moreover, the sad history of small nation states which were created by the treaty of Versailles, *e.g.*, of Poland, Jugo-Slavia, Czechoslovakia, etc., fully disillusion the theory of mono-national states.

The League of Nations.

The Covenant of the League means its constitution. The League consists of and operates through an Assembly, a Council and a permanent Secretariat. Besides, there is the Permanent Court of International Justice.

CONSTITUTION OF THE LEAGUE.—It is an instrument of international co-operation and has arisen out of a treaty, known as the *Covenant*, between 50 states. In 1927 the membership of the League rose to 56 states, the most important non-members being U. S. A. and Russia. "The general principle is that a state once admitted to membership in the League is on a footing of equality with all the members in respect of its rights and obligations." The location of the League is at Geneva, in Switzerland.

ORGANISATION OF THE LEAGUE.—There are four organs of the League:—(a) The Assembly; (b) the Council; (c) the Permanent Court of Justice; and (d) the Secretariat-General.

THE ASSEMBLY.—It is composed of about 150 official representa-

tives of the various members, each member having one vote and not more than three representatives. In order to have its decisions binding and weighty, *unanimity is insisted in all decisions.*

THE COUNCIL.—It is an inner body of the Assembly. As the latter is too big to transact business promptly, the former has been devised. The Council now consists of five permanent members representing Great Britain, France, Italy, Japan and Germany, and nine non-permanent members representing nine small powers elected by the Assembly. The Council meets as occasion requires, but it must meet at least once a year. The ultimate decisions are, however, taken by the Assembly. The Council, however, is going in the near future to be the most influential portion of the League of Nations, while the Assembly is being gradually relegated to limit its work to deliberation and advice.

COURT OF JUSTICE.—The permanent Court of Justice is a bench of eleven judges who are to opine on disputed questions of international relations.

SECRETARY-GENERAL.

It is composed of a Secretary-General and a staff to keep all records and carry on the official correspondence of the League.

The Object of the League.

The main purpose of the League is the *prevention of war.*

WEAPONS OF THE LEAGUE.

To attain the purpose, the League puts emphasis on the (a) *limitation of armament*, (b) *advocates the joint action and solidarity of the members* by recognizing a blow given to one as a blow given to all, (c) *proposes to refer all international disputes to arbitration* prior to an appeal to arms, (d) *makes provision for mutually guaranteeing the independence and territories of one member against another*, and (e) *condemns in no uncertain terms that no state has the right to disturb world peace. Thus the general purposes of the League are to promote international co-operation and to achieve international peace and security.*

ACHIEVEMENTS OF THE LEAGUE.—In the earlier years of its birth it was instrumental in liquidating certain difficulties left over from the Great War, and in settling the financial restoration of Austria, the Graco-Bulgarian and Graco-Italian disputes, etc. It also settled the rights of racial minorities and undertook many social activities for the benefit of the human race.

SOCIAL ACTIVITIES OF THE LEAGUE.—The League has undertaken many kinds of welfare work for the benefit of humanity, *e.g.*, the mission for improving the condition of labour, the promotion of public health, the suppression of immorality and the use of obnoxious drugs, the improvement of trade and commerce, etc. The organization of the World Economic Conference is another of its achievements.

The League a failure.

But the League has failed to achieve its political object. It could not save Abyssinia. It could not stop Japanese aggression on China. In recent years its authority has been successfully set at naught by Germany by the annexation of Austria and Czecho-slovakia, by Italy by the annexation of Albania, and by Franco in Spain.

THE CAUSES OF FAILURE.—The creation of the League registers the 222nd attempt to create a machinery for world peace. The failure of the League lies mainly in its *internal weakness*.

The U. S. A. disowned it. The disproportionately large representation of the British Empire created suspicion. Secession from the League was made too easy. The decision of the League was to be unanimous and not by majority. The treaty of Versailles which created too many smaller states and a good many humiliated nationalities ultimately led to the undoing of the League.

Questions:

1. What is a nation? Is India a nation? (C. U. 1930).
2. How far is India a "Nation"? What are the chief factors that retard the development of Indian nationality? (U. P. Inter. Board, 1929).
3. Define "Nationality". Explain its influence on the formation of states.
4. Describe briefly the constitution and function of the League of Nations. (Cal. 1936).
5. Has the League of Nations been successful in attaining the objects for which it was established?
6. "The development of the principle of nationalism and of the idea of the nation-state has contributed to a material change in the essential character of the State." Elucidate. (Cal. 1940).

CHAPTER VI.

COMPOSITION OF THE POPULATION

I. Citizenship defined.

The Citizen.

The state exists for the individual citizen. The state is composed of four elements : (a) A definite territory, (b) an adequate number of population, (c) an organized government and (d) sovereignty (*i.e.*, external and internal political independence). *But the central fact of the state is the second element,—a number of population possessing rights (civil and political) and duties.*

Who is a Citizen?

A citizen is a resident in a state who owes allegiance to it, enjoys its protection both at home and abroad in respect of person and property and partakes in political privileges, such as the privileges of voting in elections to public bodies and of holding public offices, etc. Thus a citizen is an inhabitant who enjoys both civil and political privileges and takes a direct share in the exercise of sovereignty, *i.e.*, the right of taking part in the election of the sovereign power.

Citizenship defined.

"Citizens are members of the political community to which they belong. They are the people who compose the state and who in their associated capacity have established or subjected themselves to the dominion of a Government for the promotion of their general welfare and for the protection of their individual as well as their collective right."

II. Status of Aliens.

An Alien.

He is one who resides temporarily within a state, but owes allegiance to another or a foreign state. Though an alien receives protection in person and property during a temporary sojourn in a foreign state, he does not enjoy any political privileges. Thus *an alien is one who enjoys only civil but no political privileges.*

Two kinds of Aliens.

Aliens are of two kinds, (a) resident or domiciled aliens, or (b) temporary sojourners. The aliens are called *alien friends* when they belong to a friendly power, or *alien enemies* when they are members of an enemy state.

Status of Aliens.

Aliens generally enjoy the following status in the country of their adoption :—

(1) They enjoy the *right of protection of their persons and property.*

(2) They enjoy *all civil rights*, to the exclusion of political rights.

(3) They are *not liable to conscription* in the military service.

(4) They enjoy *the right to sue* in the law courts.

“Modern international law starts with the proposition that aliens are as much entitled to the rights of private law as are natives.”

All aliens, *except diplomatic representatives*, for example, ambassadors, ministers, royal personages and similar other persons or parties, owe temporary allegiance to, are fully subject to the jurisdiction of, and must obey the laws and bear the public burdens of, the country of their domicile.

Disabilities of Aliens.

The aliens labour under a number of disabilities :—

(1) Till very recently *aliens were not allowed to possess, or acquire or dispose of any real or personal property* and even now in England a foreigner cannot possess a British ship.

(2) Some States *discriminate between aliens, e.g.,* Russia and Germany denies the alien Jews a number of civil rights.

(3) Nowhere do aliens enjoy political rights.

(4) Aliens can be *expelled from or refused admission* to a State on grounds of public welfare.

III. A Citizen, an Elector and a Subject.

A Citizen and an Elector.

An elector is one who is entitled to cast votes during the time of election. So it is clear that citizens who possess the privilege of franchise or voting power are electors and most electors are citizens.

But a citizen and an elector are by no means convertible terms. For example, everywhere a minor son of a citizen is a citizen but not an elector. In America, again, a naturalized alien is considered both a citizen and an elector for all kinds of elections, except for the election of the American President in which he or she has no vote and is not an elector.

A Citizen and a Subject.

Many writers describe the unenfranchised class of population of a country to be *subjects*. But the theory of sovereignty implies an idea of subjection and puts alike both the citizen and the non-citizen under the category of a subject. But the term 'subject' is looked on with disfavour in democratic countries as it seems to smack of the ideas of feudalism and absolutism, and also of servility.

IV. How Citizenship is Acquired.

Citizenship may be acquired in several ways : it may be acquired by (1) birth or descent, or (2) by grant or conferment.

(1) Citizenship by Birth or Descent.

Citizenship may be acquired (a) *either by the fact of one's birth within the jurisdiction of a state*, on land or at sea, irrespective of the nationality of the parents, or (b) *by descent*, i.e., by the fact of being born of a citizen father, irrespective of the place of birth. The natural-born* son of a citizen is by birth-right a citizen.

Thus we see citizenship may be determined either by the place of birth or by the nationality of the father. There are two Latin terms for the two foregoing principles respectively—viz., *Jus Soli* (soil) or *Jus Loci*, and *Jus Sanguinis* (blood relationship).

Jus Soli and Jus Sanguinis.

The *Jus Sanguinis* principle is the oldest and has been recognized by the Roman Law. Feudalism, which advocated *personal allegiance* and *territorial sovereignty*, did help to develop the *Jus Soli* principle.

*A Natural-born British subject is either (a) any person born within the Majesty's dominions and allegiance; (b) any person born on board a British ship. and (c) any person born out of His Majesty's dominions whose father was at the time of that person's birth was a British subject, and who fulfils any of the following conditions :—

Either (1) his father was born within His Majesty's allegiance, or (2) his father was a person to whom a certificate of naturalization had been granted, or (2) his father had been a British subject by reason of any annexation of territory, or (4) his father was at the time of that person's birth in the service of the Crown, or (5) his birth was registered at a British consulate.

Austria, Italy and some other countries follow the *Jus Sanguinis* principle and treat as citizens all children whose parents are citizens, irrespective of the places of birth, and treat all children born of aliens within the state as aliens. But according to the *Jus Soli* principle, as adopted in Argentine and other States, the children of citizens and even of aliens born within the state are citizens, while children who are born abroad of citizens are aliens.

Conflict between the two principles.

But some states, notably England and America, have adopted a *mixed* or *dual* principle. They follow the *Jus Sanguinis* principle so far as the nationality of the children of their own citizen is concerned. That is to say, all children born of English or American citizens in whatever part of the world are recognized by those states as their citizens. On the other hand, they follow the *Jus Soli* principle so far as the nationality of the children of aliens is concerned. That is to say, they recognize as citizen all children born of alien parents within their territories. Accordingly, it follows that an Englishman born in France is according to English law an English citizen. But according to French law he is a French citizen. Thus a man may have a *double nationality* which may lead to great confusion and difficulties in times of a crisis, such as the declaration of a war between England and France. Both the Government may claim the same person to join their respective armies.

How the Conflicts of Dual Nationality is Solved.

The difficulty is, however, solved in such cases by allowing the particular citizen (of course, only those born of alien parents) to *elect his own citizenship on attaining his majority*. It is inconceivable that an Englishman because

of his accident of birth in France would allow himself to be bullied into French citizenship. A natural-born (born of a citizen father) citizen is seldom allowed to exercise the right of option in choosing his citizenship.

Merits and Demerits of the principle.

The merit of the *Jus Soli* principle lies in the fact that citizenship can be easily proved by the birth register. But the determination of one's nationality and citizenship by the accident of the place of birth is a frivolous and illogical principle. The *Jus Sanguinis* principle, however, is logical and reasonable and the only demerit under which it works is the difficulty of proving one's nationality.

(2) Citizenship by Grant or Conferment.

The other mode of acquiring citizenship besides birth is, as we have already seen, grant or conferment by the state. This process we may call *naturalization in a broad sense*. According to the law of most states naturalization may take place through :—(a) *Grant on application*, i.e., in all states naturalization may be procured through a direct act on the part of the state, such as by the granting of citizenship to those who applied for it; or (b) *by marriage*; or (c) *by acceptance of offices, etc.*

(a) By Naturalization proper.

Through this formal process a foreigner is adopted into the body politic of a nation and is clothed with the privileges of a natural-born native subject. Naturalization implies the fulfilment of certain conditions and the compliance with certain formalities. For example, a period of residence, usually five years in England and America, is required; in Great Britain, naturalization requires that a man should renounce on oath his original citizenship, should declare an intention of residing in British dominions or of entering into

the services of the Crown, and should have adequate knowledge of the English language and a good character.

The British Naturalization Act of 1914 confers equal political and other rights and privileges on natural-born as well as on naturalized subjects. Before that there were some disabilities to which the latter were specially liable. They could not hold certain offices in the countries of their naturalization and were not extended protection when they returned to their native countries. Even to-day in the United States one who is not a natural-born citizen cannot become the President or the Vice-President.

1. NATURALISATION IN A WIDER SENSE.—Dr. Garner says that "*in a wider sense naturalisation includes bestowal of citizenship on an alien in any manner whatever, whether through (a) legitimization, (b) adoption, (c) the naturalization of the children through the naturalization of the parent, (d) the naturalization of a woman through marriage with a citizen, (e) naturalization through the purchase of a real estate, (f) through service in the army or navy or the civil service, (g) through the operation of the law of domicile or residence, or through (h) annexation of foreign territory, etc.**"

*LEGITIMATION.—It means the legitimization of an illegitimate child of a citizen father and an alien mother by subsequent marriage. During the period of war, a large number of children born out of wedlock were legitimized by special Acts of Parliament.

PURCHASE OF REAL ESTATE.—In some states, *e.g.*, in Peru and Mexico, purchase of real estate automatically confers the right of citizenship on the purchaser.

RESIDENCE OR DOMICILE.—In some states residence for a certain period confers the right of citizenship unless the person makes a declaration of alienage. The usual period of domicile is unnecessary in Great Britain if the applicant be in service of the Crown for five years and in Japan if the applicant has married a Japanese wife. In the United States one year's service in the army is sufficient for the purpose.

ANNEXATION OF NEW TERRITORY.—Annexation of new territory through conquest, gift, purchase or otherwise confers citizenship on the inhabitants of such territories.

2. IN A NARROWER SENSE.—In a more restricted sense naturalization implies only what we have described as *naturalization proper*, that is, *the conferment of citizenship by a court or by an administrative officer after the fulfilment by the applicant of certain prescribed conditions.*

NATURALISATION OR DENIZATION.—In some states naturalization is classified as "grand" or "ordinary". The former confers full political privileges on aliens while the latter bestows only ordinary political rights. In the United States a distinction is made between a natural-born and naturalized citizen in this that the latter class of people can never hold the offices of the President and the Vice-President of the United States.

In England the only difference that obtains between a naturalized citizen and a *denizen* is that the former privilege is being granted by an Act of Parliament, while the latter is granted by the letters patent of the Crown. Dr. Garner says, "theoretically a denizen occupies a rather immediate position between an alien and a natural-born subject and partakes of both characteristics. He cannot, however, be a member of the Privy Council, or of either House of Parliament, or hold any office of trust, civil or military, or take a grant of lands from the Crown."

(b) By Marriage.

By marriage a woman loses her nationality and becomes *ipso facto* the citizen of her husband's fatherland. Recently, there is a move in Great Britain to provide for by an Act of Parliament the retention of the nationality of British women even when they have married foreigners.

(c) On Appointment as a Government Official.

Some states allow a foreigner to be naturalized on being appointed as a government officer.

V. How Citizenship is lost.

The citizenship may be lost in various ways. It may be lost,

(1) On the *marriage of a woman* with an alien. She then loses her former citizenship and acquires that of her husband.

(2) On *being absent for a long time* (ten years in the case of Germans and Frenchmen) *from the home country*.

(3) On a *voluntary withdrawal* of the right of citizenship and a subsequent election as a citizen in a foreign state. Formerly, the right of renouncing one's citizenship used not to be recognized by any government, and though at present that right has been recognized, some countries, *e.g.*, Russia and Turkey, still cling to the old principle.

(4) On *judicial condemnation*, on desertion from the military or naval services, or on conviction for heinous crimes, a man loses his citizenship.

(5) On *expulsion or on dismissal from state service*.

(6) On *acceptance of a decoration* from a foreign government, or for *acceptance of service*, civil, military or naval under a foreign government.

The Turkish and the Russian governments never recognize the foreign nationality of their own citizens when the latter re-enter the boundaries of their mother countries.

"Stateless" Citizen.

A person, say, a German or a French citizen, loses his citizenship if he indefinitely or for more than ten years resides in a foreign country *without making a declaration* before a Consul or other officer of his own country of his intention of returning home. Now, if before his forfeiture of native citizenship he does not get himself naturalized in any other state, he becomes a citizen of no country, *i.e.*, a "stateless citizen."

Some More Classes of Citizens.

In some countries, *e.g.*, France, there are some who enjoy full

citizenship (*citoyen*), while there are others who enjoy partial citizenship rights (*nationaux*).

Again, in some states a distinction is made between *natural citizen* (i.e., those who have acquired citizenship by birth) and *naturalized citizens* (i.e., those who have acquired citizenship by naturalization). Many states make a distinction between the two and confer more rights upon the former.

Citizens and Aliens Distinguished.

The former are members of the body politic and owe allegiance to the state, while the latter are mere residents and owe allegiance to another state. So the former enjoy political rights but the latter cannot aspire to enjoy them. Though aliens are generally allowed to enjoy full civil rights yet some states go so far as to refuse to extend to them even the enjoyment of proprietary rights.

CHAPTER VII.

RIGHTS AND DUTIES OF CITIZENSHIP

I. Nature of Rights.

RIGHT.—*Right is one man's capacity or power of exacting from another or others acts or forbearances.*

Rights are either ideal, moral, or legal.*

IDEAL RIGHTS.—Ideal rights are those which should be the inherent possession of every man, and which are necessary for the development of man as man and which every man should strive to attain.

MORAL RIGHT.—A moral right is that which rests on the approval or acquiescence of public opinion.

LEGAL RIGHT.—"A legal right is the capacity residing in one man of controlling, with the assent and assistance of the state the actions of others."

Legal rights are those which have been guaranteed to man by the state. It is not an inherent but an acquired right, a gift of the state, a privilege. In a progressive state there is a tendency for legal and ideal rights to coincide.

* Dr. Beni Prasad opines that rights are essentially *social* in their nature. "Inequalities prevail in this world. But it is clear that maximum opportunities should be guaranteed to everyone for developing the best that there be in him. He has the right to those conditions of life which are calculated to furnish the maximum opportunity. Looked at from this angle, rights are not independent of society. They are *social* and nothing more and nothing less than those social conditions which are necessary or favourable to the development of personality. Rights are, in their essence, aspects of social life."

Legal Rights of Citizens : Civil and Political.

In Civics or Politics, we are concerned with the legal rights of the citizen.

Legal rights, again, may be classified as civil and political rights.

Civil rights are rights which are enjoyed by the citizens within the state, which protect the citizens from being attacked from outside the state and by the state itself. They comprise protection of life and property, family rights, freedom of speech and thinking in matters political and religious, etc.

Political rights are those through the exercise of which a citizen participates in the administration of the state, *e.g.*, the right to vote, to hold public offices, etc.

II. Nature of Duties.

DUTY.—Duty means an obligation. It implies that one person is bound or ought to do or not to do something, to further the wishes of another or others, either actively or passively. *Duties are either moral or legal.*

When a duty is enforceable against a person by the law of the state, it is called a *legal duty*. When a duty is enjoined upon a person by the force of public opinion merely, it is called a *moral duty*. That a citizen should make voluntary contributions to charitable funds established for the poor, or should not lie, is a moral duty. That every adult citizen should bear arms and fight for his fatherland when it has been invaded, or should pay taxes when he enjoys property under its protection, are legal duties.

"It is the *negative duty* of every individual to respect the rights of every other. The possessor of a right again is under the obligation (*positive duty*) of making use of his own right in consonance

with its nature and principle, whenever that right itself is conceived as the means of attaining a necessary object."

Co-relation between Rights and Duties.

Rights* and duties are correlative.† One cannot exist without the other. Every right implies a corresponding duty. Moral and legal duties are enforceable by the state against a citizen in the same way as a legal right is enforceable by a citizen against the state.

Man being a moral creature, he has a moral ideal. Attainment of this moral ideal or "self-development" is the goal of human life. But in order that this "self-development" may be attained, conditions should be made favourable to achieve the end, *i.e.*, he must have personal security and other similar advantages without which self-development is unthinkable. The state, therefore, makes such conditions favourable by granting him certain rights, and by imposing certain duties on other people. Thus A's right of personal freedom means 'B's duty not to violate A's right to personal security. Similarly, "A" must also respect such rights of other people. Therefore, "rights" and "duties" are two correlative terms—one cannot exist without the other. The state is the co-ordinating authority.

Rights and duties, again are the products of social life. They cannot arise unless the people live in a Society.

III. Rights of the Citizen.

We propose to enumerate here the various civil and political rights enjoyed by a citizen.

*Rights arise from (1) the moral nature of man and (2) the fact that he is a social being.

†"What is a right in regard to oneself is a duty in regard to others. Rights and duties are thus interdependent. If one looks at them from one's own standpoint, they are rights. If one look at them from the standpoint of others, they are duties. Both are social. If everyone insisted on his rights for himself but neglected his duties towards others, there would soon be no rights left for anyone."

In democratic countries the most important of these rights are embodied in the constitution and are called *fundamental rights*, i.e., rights which safeguard individual liberty and are protected against encroachment either by individuals or by the State.

(a) Forms of Civil Rights.*

The content of civil liberty is very long and we need mention here only those rights which belong to the subjects of every civilized state.

(1) Protection of Person.

It implies not only protection of life and limbs but also absence of physical restraint. It also implies the right to be protected against foreign aggression. That is to say, protection of person implies both internal and external security.

The rights to personal safety consist in "a person's legal and uninterrupted enjoyment of his life, his limbs, his body and his health"; and in "the power of movement, or the removing of one's person to whatever place one's own inclination may direct, without imprisonment or restraint, except by due course of law."

Prof. Dicey defined 'liberty of the person' thus: "It is a person's right not to be subjected to imprisonment, arrest, or other physical coercion in any manner that does not admit of legal justification."

*Opportunity to all alike—that is the principle of Civil Rights. The term Civil Rights is generally used to cover some specific opportunities and guarantees thereof. A civil right is pre-eminently one which its possessor can enforce, or at least ought to be able to enforce, by the help of social agencies, against all who seek to violate. As such there is a large number of Civil Rights—rights capable of enforcement by public opinion or by the courts of law. They include *the right to education, the right to the economic minimum, the right to follow a vocation, the right to free movement, the right to property, the right to security, the right to justice, family rights, the right to freedom of religion, the right to religious toleration, the right to cultural freedom and toleration, the right to liberty of thought and expression and the right to Association and Public Meeting.*—Dr. Beni Prasad in "A. B. C. of Civics."

Murder is punished by capital punishment partly as a matter of revenge and partly to get rid of an undesirable person from society. *Suicide* is also punishable because it is a process which is designed to destroy a unit of the state who has duties to perform.

But the right to live is not absolute. During foreign invasion sacrifice of life in the protection of hearth and home is both a moral and a legal obligation.

(2) The Right of Self-defence.

A citizen *can resort to measures of force in self-defence, so long as the force used is not more than what is necessary and reasonable*, taking into account the seriousness of the threatened danger. If the force thus used is necessary and reasonable then even the killing of a person who makes a deadly attack is justifiable.

(3) The Right to Property.

The right to property is a means of securing the possibility of a free development of life. Ethically, private property in some form is essential to the existence of man. The state secures for everyone the free use, enjoyment and disposal of all his gains, whether in land or goods.

It is a common maxim that "*an Englishman's house is his castle.*" This means that a man's home cannot forcibly be entered into by the police except under a legal warrant. Similarly, no citizen of England can be made to pay any tax, without the consent of his representatives signified through an Act of Parliament.

(4) The Right of Worship and Conference.

A person has the right to worship God in whatever way he pleases, so long as he does not disturb public peace. Again, every citizen must have liberty of thought and conscience. The modern tendency everywhere, however, is towards religious toleration.

(5) The Right of Free Speech.

A citizen must enjoy perfect freedom of speech, *i.e., the right to say or write what he chooses*, provided that

it is not blasphemous, obscene, seditious or defamatory of another's reputation, and the *right to attend any lawful public meeting*. Sometimes even the utterance of truth is punishable if the statement be such as to endanger the state.

Honest and *bona fide criticism* of public bodies and the government are allowed in all free countries. This freedom of speech does away with the evil necessity of using force by the people to check governmental high-handedness. This right to freedom of speech also implies the *freedom of the press*, i.e., the right to publish in print all *bona fide* criticisms of governmental measures.

A *libel* is punishable if it injures the reputation of a person and cannot be substantiated. But if the truth of the statement can be proved then it is not punishable.

(6) The Right to be Free.

The individual in order to realize his supreme end, *must be free to exercise his will*. But freedom does not mean absolute right to do whatever a man wishes.

In England this right to be free is safeguarded in two ways: (1) by redress for arrest, and (2) by the Habeas Corpus Act. By the former a man wrongly arrested can claim damages or get the wrong-doer punished. The latter is an order issued by the courts to produce a prisoner or *his body* kept in restraint in order that his case may be dealt with by the court. In France, before the Revolution, there was a system known as *letters de cachet* by means of which individuals could be sent to the *Bastille* and against which no legal process was available as a redress.

(7) The Right of Association.

"The right of association", says Prof. Gilchrist, "is one of the elemental rights of man as a social being." In modern states the right of association is widely recognized and only those associations are suppressed which aim at subverting the government either by open or secret organizations.

(8) The Rights of Family.

Every person has the right that his family relations shall not be interfered with. He has a right to the society of his wife. He is entitled to the custody and control of his children.

But as the family state is a condition of good life, some restrictions of unnatural use of family rights are exercised by government. The rite of *sati*, child marriage (through the Sarda Act), etc., have been suppressed by the Government of India.

(9) The Right of Contract.

If one engages himself to render certain services to another, the second has the right to receive those services. The right of contract, however, involves the obligation to enter into no contracts which cannot be reasonably fulfilled. *In short, the right of contract is not absolute.* It has reference to public good. *A man is not to-day at liberty to contract himself to slavery.*

(10) Right to the Advantages of Social Life.

A man has the right to go unmolested in carrying on his trade, industry, or other occupations, unless they be such as to endanger public welfare, *viz.*, the keeping of unlicensed brothels, of gambling houses, etc., and the arrangement for counterfeiting of coins, the distilling of contraband liquors, etc.

Again, "every man has a right to the free use of the public highways and of navigable rivers, to the use of the public posts and telegraphs, and of all other national advantages. Resort to the law courts for the decision of *bona fide* claims and for the punishment of wrong-doers is a privilege of every citizen; but the process of the law must not be maliciously abused to the injury of another."

(11) Right to Education.

In modern times the state has come to set a very high

value on the education of the people; so that it now compels parents to educate their children either at home or in the public or private schools generally established by the state. A parent has the right to demand free education for his children in a public elementary school."

The right to the secrecy of correspondence, the liberty of migration, the right to employment, the right to culture and language enjoyed by the minority population, are some of the important rights conceded by modern governments.

Legal Position of British and Indian Citizens.

1. THE RULE OF LAW.*—In England as well as in India, though only theoretically in the latter country, *the rule of law* prevails. It does not only imply that *all men*, rich and poor, black and white, *are equal before the law*, but it also implies that in the ordinary law court and by the *ordinary law both the citizens and the officials* are adjudged.

2. LIBERTY OF THE PRESS.—In the matter of the liberty of the press, the government of Great Britain does not put any restriction *upon publication beforehand* as in India, but only punishes offenders when they have published an objectionable matter which has been proved as such in an ordinary court of law.

No licensing of the press is in existence in England since 1695.

Fair comment in England means criticism, however severe it might be, of the conduct of a public man so far as it relates to matters of public interest. It is not a *libel* if it is made without ill-will and does not amount to personal abuse.

*RULE OF LAW.

It implies an idea (a) *of the supremacy of the law*. All executive action must be taken according to law. No one is to be arrested or imprisoned illegally. (b) It does not countenance the idea of special treatment for any person or bodies. No one is above or beyond the law.

In India, the rule of law prevails with certain modifications, *e.g.*, high officials are free from arrest and imprisonment, and criminal cases cannot be instituted against officers of a certain standing.

In India the *press* is not free. The local government can forfeit the security deposit of a newspaper, and can enhance its amount according to its pleasure.

3. **LIBERTY OF MEETING.**—Unlike in India, there is no British official, from a Secretary of State down to a policeman, who has any authority to dissolve or interfere with a meeting convened for a lawful purpose and in a lawful manner. Meetings are only unlawful when they are convened for libellous or seditious talk, or for the purpose of committing a breach of the peace.

In India by the use of Sec. 144, the police can stop all meetings within specified areas for prolonged periods, can break any meeting by the use of reasonable force, can stop all processions on grounds of public peace,—actions against which there are no relief in law courts.

4. **MARTIAL LAW.**—English law knows no martial law. In times of serious crisis when it is impossible for the courts of law to sit, a military tribunal may try and punish civilians. But as soon as peace is restored the question of the necessity of the force used against citizens by the military tribunal may be referred to ordinary courts to test the validity of its decisions. In India, the local government can proclaim any area to be under martial law.

5. **TAXATION AND EXPENDITURE.**—Taxes are imposed directly by parliament and no money can be spent without its consent. The principle of "*no taxation without representation obtains in England.*" In India, the Viceroy can sanction taxation by certification.

(b) Forms of Political Rights.

Political rights, on the other hand, are concerned with the participation of the citizen in the administration of the state. They consist of the following :—

(1) The Right of Permanent Residence.

'A citizen has every right to live in whatever part of the state he likes. Only under exceptional circumstances, for example, when a person's free movement within the country is considered dangerous to the state, can he be *interned* (i.e., obliged to live within definite territories within the state,

or gaoled), or exiled, or be prevented from entering the state.

(2) Right to Protection of the Citizen staying Abroad.

If a citizen when living or sojourning abroad suffers damages from the hands of a foreigner without proper reparation from the government concerned, then the embassy of the home country would move in the matter and on its failure would cut off all diplomatic relations and even may request the home country to go into war with the government concerned.

3. The exercise of Franchise.

The right to vote is one of the important tests of citizenship. Through the exercise of the franchise a citizen partakes in the administration of the state. The right of franchise was formerly denied to women generally, and only a very small proportion of males was enfranchised. Women franchise, however, is an accepted fact to-day and

POLITICAL RIGHTS: ITS GENESIS.

"The latter may broadly be defined as conditions under which adult persons share in the task of government or exercise influence on government. *Between them and civil rights, no rigid demarcation is possible.* They spring from the same considerations of general social good, specially of equality of opportunity. They buttress each other; civil rights are insecure without political rights, and political rights lose their vital significance without civil rights. *There are some rights which are both civil and political, e.g., the rights of freedom of expression, of association and of public meeting.*

The genesis of political rights lies in the fact that no one can fulfil himself without an opportunity of sharing in the wider life of the community and exercising his pull on affairs. To confine a man to his family, church and economic pursuits is to dwarf his stature. Society is the loser if it does not avail itself of all the ability and public spirit in the community. *Political rights are the avenues to social co-operation on the largest scale.*"—Dr. Beni Prasad.

the world is moving fast towards *adult franchise or universal suffrage*.

4. The right to participate in legislation.

In pure democracies, *e.g.*, in the city states of ancient Greece, every citizen used to take an active part in the administration. But with the expansion of the size of the state, and extension of the right of suffrage, it has become impossible for all citizens to take an active part in administration. They record their views to-day not *directly* as before but *indirectly* through their representatives. *Democracy to-day instead of being pure is representative*. Legislature to-day be it remembered, is the repository of all power, and participation in legislation is considered the test of citizenship.

5. The right to hold public offices.

Equal eligibility to office from the highest to the lowest, whether legislative, executive or judicial, is an important right of the citizen in all free states.

6. Right of Petition.

Every citizen has the right to ventilate his grievances before the executive officers of the state by means of petition, which the latter must take full cognizance of and should promptly act upon.

Political rights also include (a) *the freedom of association* and (b) *the freedom of expression of opinion*.

Civil and Political Rights.

A citizen possesses both civil and political rights. An alien, however, enjoys full civil rights to the exclusion of political rights. "Full citizenship implies membership in the nation and complete political rights." The distinction between civil and political rights, however, is less clear cut to-day. The right to education is a civil right but it is the real guarantee for the exercise of all political rights.

IV. Duties of Citizenship.

Rights and privileges imply corresponding duties and obligations.

Duties of a Citizen.

The famous declaration of 20th August, 1917, by Mr. Montagu which states that the policy of His Majesty's Government "is that of the increasing association of Indians in every branch of the Indian administration," is a complete negation of the idea of Indian citizenship in as much as it expressly as well as by implication professes that there will still continue to be some close preserves for non-Indians.

A legal right is a power given by law, in virtue of which one man has the capacity of making others act, or forbear from acting in a certain way.

All legal rights are protected by the law: this means that the courts will compel those who infringe such a right to make reparations to the owner of the right.

This right of interference on the part of the courts when one does a forbidden act, or omits to do an act commanded, enforces a *legal duty or obedience*.

Duty may be owed by a *particular individual or by the community generally*.* 'A' has borrowed money from 'B' under a contract, so

*DUTIES MAY NOT HAVE CORRESPONDING RIGHTS.—There are certain duties which do not entitle an individual to correlative rights, unless we hold that *the 'public at large' may have such a right*.

There are a good number of duties thus imposed by the state, which are intended to secure for the community as a whole and not for its individual members, the benefits of order, good government and peace of mind. On this principle, a person should not take part in a *riot* and whoever takes part in a riot is to be punished by a court of law. This duty not to disturb the public peace cannot be connected with any legal right of an individual person.

Criminal law enforces certain duties on pain of punishment, for example, not to commit murder, arson, burglary, treason, perjury, bigamy, libel, piracy, etc., the fulfilment of which (duties) does not entitle a citizen to any right or privilege whatsoever.

'A' must fulfil all the obligations involved in such a contract. Again, B is in exclusive possession of certain quantity of wealth, so all members of the community owe a duty not to interfere with it. We are concerned with the latter form of duty.

"The emphasis to-day is on the duties of a citizen and not merely on his rights. Such duties are not to the state alone but also to the family, the village, the town, the province, the country and the world community."—(*Lahiri and Banerjee.*)

Legal and Moral: Positive and Negative Duties.—The moral duties of a citizen are multiplying to-day. As a citizen he has to perform many duties which though not legally enforceable must be performed by a good citizen. (Read page 49). These duties may be called negative duties. *Positive duties* like paying taxes, serving on the jury, helping to establish peace and order, fighting for the defence of one's country must be performed by a citizen to escape punishment. But *negative duties* like voting during elections, attending the legislature when elected to it and to vote consciously, not to disseminate contagious diseases, and to patronize indigenous goods, to defend national leaders against habitual traducers, to actively propagate national cause and to fight for national honour, may go unperformed by a citizen without incurring any punishment. But such a distinction between the two kinds of duties must not be observed by a good citizen.

Some important duties.

WE ENUMERATE HERE SOME OF THE MOST IMPORTANT DUTIES OF A CITIZEN TO THE STATE.

1. OBEDIENCE.—*Obedience to the laws or commands of the sovereign is the essential test of the existence of a state.* Disobedience carries with it punishment. When laws can be broken with impunity the sovereign authority may be said to have disappeared and the state has ceased to exist. Laws are enacted for the welfare of the people, and so every good citizen who has the welfare of the state at heart, must obey laws.

This duty is a moral as well as a legal duty: that is, not only a person will be punished or rendered liable to pay compensation by a court for infringement of law but the duty seems to be binding upon every citizen as a matter of conscience.

2. ALLEGIANCE.—*Allegiance* to the state implies a number of services which the citizen owes to the state. It may mean service in war, assisting the public officers in the discharge of their duties, or service in public office.

(a) *Service in war* implies the duty of every citizen to sacrifice his own life for the safety of the state. Military service may be *compulsory* or *voluntary*.

(b) *Support of public officers*, viz., police and military, in the discharge of their duties, in order to suppress a riot or a revolution, is an essential duty of the citizen.

3. OTHER PUBLIC DUTIES may be of the nature of *holding public offices, recording of votes*, securing conditions which conduce to public health, imparting education to children, providing for poor relief and old age pensions, etc. When offices were generally honorary, holding of public office was really a sacrifice. But it is not so at present as they are well-paid and oftentimes fat-salaried. Still however, holding of public office sometimes entails considerable pecuniary losses, *e.g.*, when a successful advocate or a Barrister-at-law is appointed as a Judge of the High Court.

Exercise of the *privilege of franchise* seems to be an incumbent moral duty of the citizen. *The vote should be exercised with discretion, honesty and deliberation. The vote is a sacred trust.*

The vote is considered so important that in some countries it is made penal not to cast votes during elections.

4. PAYMENT OF TAXES.—Finance is necessary to maintain the state, so levying of taxes is unavoidable. Taxes are levied to-day not by the executive but by the representatives of the people elected to the legislature. So there cannot be any reasonable grievance against it.

The nature of Political obligations.

"As there are civil and political rights, so there are civil and political obligations. But nowhere are obligations more serious than in regard to political rights. Government is a difficult art and wrong moves may have grave consequences. So it is the duty of every person to shake off all prejudice and partnership, to try to obtain correct information and to mind the good of all. He is to treat the suffrage as a sacred trust and decline to be moved by any considerations, private or sectional, except the public good, in casting the vote. If elected, he is morally bound, along with others, assiduously to think out measures of public good and do his level best for their execution. Those placed in office should, so to say, live for the public, directing all their thoughts and actions to the social good. Political obligations are not merely of an intellectual character. They are also obligations of honesty and of what is called public spirit or social service. The great thing is to steer clear of considerations of family, class, caste or sect and aim directly at the good of all."—*Dr. Beni Prasad.*

Duties of the State.

The most important of the duties of the state may be enumerated as follows:—

- (a) Protection of the poor.
- (b) Protection of labour.
- (c) Promotion of education, art and culture.
- (d) Promotion of certain economic activities, *e.g.*, creation and administration of public utility services, regulation of currency and coinage, etc.

(e) *Justice and Equity.* The state should always endeavour to hold the balance even between different classes and communities. The state "should also see that equity and justice is secured not only in the political, but also in the social and economic life of the community." Read also in Chap. XV., *What the Government is actually doing for us.*

V. Hindrances to good Citizenship.

Qualities or Conditions of good Citizenship.

According to Bryce, *intelligence, self-control and conscience* all make for a good citizen. E. M. White enumerates the qualities of good citizenship to be *common-sense, knowledge and devotion*.

Elements of good citizenship.

The excellence of a government, says Bryce, depends upon the extent of the *civic capacities* of its citizens. They consist of—*Intelligence, Self-control and Conscience*, i.e., an understanding of the interest of the community, the subordination of one's own will to the general will (majority), and a feeling of responsibility towards the community and a willingness to serve it by voting, working or even fighting. Opposed to these three qualities are *stupidity and ignorance, self-indulgence and want of devotion to duty*.

The Chief Hindrances to good Citizenship.

The moral weakness of the citizen that hinder good citizenship may be traced to three main causes:—(1) *Indolence*, (2) *Personal Self-Interest* and (3) *Party spirit*.

I. Indolence.—In public affairs the spring of self-interest being absent and the perception that others are neglecting their duties being present, a citizen becomes indolent, more so, when he thinks that he himself constitutes only one unit in a million. "Everybody's business is considered nobody's business."

Indolence *in thought* is of no less consequence than indolence *in action*. It is said that *the price of freedom is eternal vigilance, and true vigilance is born of free thinking*.

THE CAUSES WHICH TEND TO INCREASE INDOLENCE.

Though education and the Press have tended to decrease indolence, several causes, however, tend to increase it. They

are (1) *an indulgent spirit*, (2) *the vast size of modern states*, (3) *a limited scope for the exercise of the courage of conviction in huge communities*, and (4) *other interests competing with politics*.

(1) *An indulgent spirit*:—In olden days commission or omission of offences was promptly punished, but in modern times manners have grown gentler and passions less angry. Very few citizen to-day perform the chief duties of a citizen, such as *to be angry when anger is called for* and to express his anger by deeds, to attack the bad citizen in office, to expose his dishonesty, to eject him from office, to punish him, etc.

(2) *Vast size of modern states*:—In a vast state of modern times a single vote is considered to be like a drop of water in an ocean. So many think that it is merely fighting against odds to attempt to enforce one's views on the government through the exercise of the right to vote. "*Few of us realize that though our own share may be smaller our responsibility increases with the power our state exerts.*"

(3) *Limited scope for exercise of courage of one's convictions*:—The highest and the most difficult duty of the citizen is to *fight bravely for his convictions* when he is in a minority. "This task is more formidable, the vaster the community."

(4) *Other interests competing with politics*:—Interests in art, science, literature, sports, trade and commerce, etc., are decreasing the interest in politics and are diverting the attention of the citizens to other things and interests.

How the indolence expresses itself.—The indifference to civic duties takes one of these several forms:—

(1) *Neglect to fight*.—Citizens try to shirk the duty of fighting for their motherland on various pretexts, particularly in countries where military service is voluntary.

(2) *Neglect to vote.*—The privilege of franchise is often abused. A small percentage of the voters usually present themselves at the polling stations.

(3) *Neglect to partake in public life.*—Many people who have leisure, wealth and brain try to avoid public life for other amusements of life. "This is often due rather to thoughtlessness than to a conscious indifference to the call of duty."

Some people argue that local politics is disagreeable and that it brings men in contact with vulgar people. But the contention is untenable in as much as the so-called abuse crops up because of the indifference of educated people to take part in politics.

(4) *Neglect to study and reflect upon public questions:*—Very few voters think before they vote. Hard struggle to earn one's daily bread, want of time and opportunity, imperfect education, absence of contact with public life, all stand in the way of reflecting seriously on public questions. Many vote after consulting the priest, the school master, the landlord, or their employer.

II. Private self-interest.—*Selfish private interests pervert civic duties in the following ways:—*

(1) *The practice of buying votes.*—Many adopt the underhand practice of securing votes by purchase instead of leaving their electors to vote for the best candidates. The practice leads to the election of unfit candidates.

(2) *The attempt to shift the burden of taxes upon others.*—In order to avoid the burden of taxes and to shift it upon other persons, classes and areas, voters sometimes elect particular individuals who are expected to act according to their behest.

(3) *Favouring particular localities to win votes.*—In order to win votes of particular localities special favours, in the shape of improvement of roads, sanitation, etc., are shown.

III. Party spirit.—"A party is a body of men united for promoting by their joint endeavours the national interest upon some point in which they are all agreed." A party is legitimate and useful when it is organized on a principle and embodies a doctrine. It is dangerous and illegitimate when it blindly follows a leader and concentrates its effort to seize political power or usurp some other distinctly material benefit. Party spirit is not only subversive of independent thought but it often leads to the subordination of national welfare to party squabbles.

Remedies against the hindrances.

The remedies which may be applied to remove the defects of the functioning of government and to do away with the hindrances to good citizenship are some *mechanical*, some *ethical*.

Mechanical remedies are those which consist in improving the structure and working devices of governments, *i.e.*, laws and institutions or political methods. *Ethical remedies* are those which affect the character and the spirit of the people. Of the two, the latter is more efficacious than the former, yet the former should not be under-valued.

(A) Mechanical Remedies.

(1) *Proportional representation.*—It is a system of representation in the legislature by which each party or group of electors within the state may find opportunities for representation in proportion to their total voting strength. The system protects minorities from being altogether swamped by majorities. This device improves the composition of the legislature by making representation of all parties and interests possible.

(2) *Obligatory voting.*—It is designed to overcome the indifference of citizens. Though the system obtains in Belgium and in some Swiss Cantons, the principle has not

been widely adopted as it is apprehended to lead to worse results by forcing unwilling and unreflecting people to cast their votes under compulsion during times of election.

(3) *Direct legislation.* They are of the nature of initiative and referendum which are designed to provide the voters with opportunities to take a direct part in the legislation of the country. They enable citizens to take a direct and active interest in state affairs.

(4) *Purging of corruption.* The purity of governments may be ensured by *avoiding as many contacts* between governments and the pecuniary interests of private citizens as possible. For this reason no member of a government should be allowed to hold any contract under it.

(5) *Modification of election laws.* It may be done in such a way as to weaken party organizations and to stimulate the zeal of individual voters.

(6) *Enactment and enforcement of stringent laws against breaches of public trust.* It may do away with many of the evils of jobbery that obtain to-day in every government.

(B) Ethical Remedies.

The civic life may be uplifted to a higher plane by the following ways:—

(1) *By education.*—Moral education combined with civic and academic training qualifies a man to discharge properly his duties as a citizen.

(2) *Spread of knowledge.*—The *will to apply knowledge* for the public good should be encouraged.

(3) *Appeals should be made to every citizen's sense of dignity and self-respect.*

(4) *Propagation of high ideals.* High ideals are to be set before the citizens, and the teachings and examples of

great minds, like that of Washington, Lincoln, Mazzini, Tolstoy, Mahatma Gandhi, and others may raise a whole nation to a higher plane of living and thinking.

VI. Education for Citizenship.

A National System of Education.

Proper training of the citizen is necessary so that he may properly discharge his duties as a citizen. The teaching of the three R's is not sufficient for the purpose. A *national system* of education through which *civic knowledge* could effectively be imparted to the citizens seems to be the proper vehicle of learning. *It should afford opportunities for self-development. It is to banish ignorance and to fit a man to take an active part in the administration of the state.* Civic education must be such as to develop *first the character and then the productive efficiency of the citizen.* Active participation in civic affairs inculcates the best civic habits and a spirit of discipline which mere book-learning can never impart. *Women, again, are to be as much good citizens as men.* They influence both directly and indirectly the uplift of the nation.

The value of practical training : the case of India.

In India the difficulty of civic training arises out of the fact that the citizen's connection with civic affairs is partial and remote. The gagged press, the closely-watched platform, and the suspected lecture-hall can come very little to his help. More trust, greater latitude of action and closer relation with the administration can only reclaim him.

Education should be all-sided.

Education should not be merely literary but it must develop the moral, æsthetic, artistic, and social tendencies of man. It is to enable and guide him to tackle the pressing

problems of the day. Education is ultimately to unfold his personality so that he may give his highest to the nation and country to which he belongs and to the world at large of which he is a living unit.* "Education," said Burke, "is the best defence of a nation."

Questions :

1. What are the characteristics of a citizen? Distinguish a citizen from an alien (Cal. 1930).

2. Distinguish between a natural citizen and a naturalized citizen (Cal. 1931, 1933).

3. Bring out clearly the distinction between a 'citizen' and a 'resident alien' (Cal. 1929).

4. "Rights imply duties." Explain. Enunciate some of the important rights enjoyed by a citizen in a modern state. (Cal. 1927).

"Rights of a citizen have their corresponding duties." Illustrate by reference to the citizen of a Bengal village. (Cal. 1930).

5. What do you consider to be the true basis of a franchise? (Cal. 1926).

6. Define Right. Enumerate the civil rights of a citizen. (Cal. 1931). Rights and duties go together. (Cal. 1932).

* Education is the keystone of the arch of good civic life. There should be no dogmatism in education. The younger generation should be allowed to think and reason for itself. The great need is the liberation of the mind. Again, education should not be allowed to think and reason for itself. The great need is the liberation of the mind. Again, education should not be inadequate. It should be systematised as much as possible. Universal literacy is a bare necessity to-day. Vocational training, University education, and spread of knowledge through libraries, learned societies, museums, picture-galleries, etc., are essential for a sound system of education. Education brings about an equality of opportunity which is the essence of civic life.—(Dr. Beni Prasad, A. B. C. of Civics, Chap. V).

7. Is education the sole qualification for citizenship or are other qualifications necessary? If so, what are they (Cal. 1930). (Read, Chap. X, Sec. III).

8. What are hindrances to good citizenship. (Cal. 1928) ; Discuss the main obstacles to the exercise of good citizenship. (Cal. 1931).

9. What are the fundamental obligations of a citizen. (Cal. 1929). What are the duties that a citizen owes to the state? To what extent can the state compel him to perform them? (1928). "Life, liberty, and the pursuit of happiness are the inalienable rights of man." Comment. (1932). "Rights are the only counterpart of duties." Explain. (1928. U. P. Inter. Board).

10. What are the rights of a citizen to (a) public meeting, (b) freedom of speech? (Cal. 1932). What do you understand by the phrases *freedom of speech* and *freedom of the press*? (Cal. 1933).

11. If you find that the elections to the municipal board of your town is not properly conducted or are interfered with by interested parties, what should be your duty as a citizen? (Cal. 1932).

12. Define citizenship. What are the rights and duties of a citizen? (Cal. 1928). Describe the rights and privileges of a citizen in a modern state. Are there any obligations to which a citizen is subject. (Cal. 1934). Discuss the rights and duties of a citizen in a modern state. (Cal. 1935). Write a short essay on the rights and duties of citizenship. (Cal. 1937).

13. Describe the rights and duties of citizenship. What according to you, are the hindrances to good citizenship? (Cal. 1940).

CHAPTER VIII.

THE CIVIC IDEAL.

Civic Ideal in the past and present.

Not only a citizen should take active interest in the actual administration of the state, should zealously guard his rights and properly discharge his responsibilities, should guard against the hindrances to good citizenship (read, pp. 64—68), but should also possess a *progressive outlook or civic ideal** as a member of a political community. This civic ideal is distinct from other ideals which a man may possess. The true civic ideal aims at attaining good life in society. Every great nation has an ideal of its own and the system of national education everywhere attempts to train its youth to that ideal.

We summarize below the civic ideals of some great nations of the past as well as of the present:—

Spartan Ideal.—Sparta emphasized bravery and iron physique for its members as the highest ideal. To attain it family life was subordinated and the state took rigorously upon itself the task of training brave and hardy youths.

Athenian Ideal.—The Athenian ideal did not aim alone at the perfection of the body of its citizen but of his mind and tastes as

*“The modern civic ideal is a comprehensive one. It aspires to make the place of one’s birth and residence not only beautiful, but also an embodiment of the lofty aims of human organization. it inspires the citizen to make his country not merely inferior to none in material thing, but also in securing the conditions of progress towards the higher purposes of life for each and for all; it prompts him to endeavour to contribute his best towards the establishment of a better, freer and happier world than he found it for every member of the human race, irrespective of his colour, creed and country.”—(Lahiri and Banerjea).

well. So Athenian education included not only military training and the teaching of the three R's but also literature, music and art. The Ephebic Oath* was characteristic of the Athenian civic ideal.

Roman Ideal.—The citizen was taught to think hard and to enjoy leisure, to govern and to fight; work was left to the slaves.

Hindu Ideal.—It was to attain higher and peaceful domestic life for the citizens. The ruler was merely a trustee who was to sacrifice even his conjugal life in order to help the maintenance of a higher social and spiritual life of the citizens.

The English Ideal.—Conservativeness, love for law and order, intense and educated patriotism, love for justice and a sporting spirit characterize English civic ideal.

Civic Ideals:—WHAT THEY SHOULD BE.

The civic ideal of a nation may be summed up in two words, *patriotism* and *progressive outlook*.

(1) Patriotism.

To undergo the highest sacrifices,—to do and die—for the protection of the hearth and home, for the national honour and for the memory of the honoured dead of one's country is the foremost duty of a citizen. A patriot citizen has many moral duties to perform. He must keep himself:—

(a) *Physically fit.*—Sound mind obtains in a sound body. A weak and diseased condition of health is dangerous both from economic and political point of view. So proper physical training should be given to the youths.

(b) *Must possess public spirit.*—A patriotic citizen must zealously serve his community. From the recording of the vote to

*"I will not bring dishonour upon my arms, and I will not desert the comrade by my side. I will defend the sacred places and all things holy, whether alone or with the help of many. I will leave my native land not less but greater and better than I found it. I will render intelligent obedience to my superiors and will obey the established ordinances and whatsoever other laws the people shall harmoniously establish. I will not suffer the laws to be set aside or disobeyed, but will defend them, alone or with the help of all. And I will respect the memory of the Fathers. The Gods be my witnesses."

the holding of the highest executive office of the State, his motto should be service to the community and not self-aggrandisement.

Public spirit includes *civic interest and vigilance*. A citizen must be very watchful so that the democratic government of his country may not degenerate into a rule of the interested few. This vigilance must not be limited to the political sphere alone but should extend to every sphere of life where national honour may be at stake.

(c) *Must help to promote Culture and Aesthetic ideas*.—Every nation has a culture peculiar to its own, in art, literature, music, architecture, religion, science, etc. A citizen should see that they may reach the highest perfection. The æsthetic ideal of a beautiful life and surroundings should also be aimed at.

We have already noticed the evils of perverted nationalism. A nation should avoid as much excess as possible because it engenders a spirit of aggrandisement and greed, which may ultimately vitiate the spring of moral life.

(2) *Progressive Outlook.*

The greatest clog on the wheels of progress of a nation is the accumulated prejudices, superstitions, and evil habits and usages of centuries. A citizen must be bold and intrepid enough to fight against those odds and to rectify them for the benefit of the unborn posterity.

Conditions for realizing Civic Ideals.

Under the following conditions the realization of civic ideals may be possible:—

(a) *Democracy*.—The full play of patriotism and the flow of public spirit are only possible when the people have a voice in the conduct of administration of government. *Democracy should be complete, not only in the political sphere, but in economic and social spheres as well.*

(b) *Education*.—It is the only potent instrument which can make democracy fruitful. It should be universal and compulsory, national and free. (Read, Pp. 69-70 and Chap. XIX).

CHAPTER IX

CITIZENSHIP IN INDIA.

I. Limitations upon Indian Citizenship rights.

(1) Liberty of the person.

In India the Governor-General can stop the trial of Government officers who have encroached without apparent reason upon the liberty of an individual citizen, can indefinitely detain people without trial under Reg III, and can also create Ordinances.

Detention without trial is unjustifiable as it is an accepted doctrine that: 'You should never trust that justice has been done till an accused person has had his trial in the regular way, in a regular court of law, conducted in the open.'

(2) Restriction of Liberty of Movement and Settlement.

Indians have no freedom of emigration and of settlement.

(3) Restriction on Freedom of Speech and Writing —the Press.

The Press Act has been abolished but some restrictions have been put upon it by the amendment of the Criminal Procedure Code. The Law of Sedition is a very powerful weapon in the hands of the executive in India.*

*INDIAN PRESS : ITS SHACKLES.—Theoretically, it may be said, that there is no restriction upon the Indian Press. But practically, between the permanent provisions of the laws of sedition as enacted in the Indian Penal Code on the one hand and between the Criminal Law Amendment Act on the other, there may be said to be no freedom of the Indian Press. Further, temporary legislations through ordinances and censorship have also helped to gag the press effectively.

The history of the Indian press is also not edifying to the government. Since the Governor-Generalship of Lord Wellesley effective and stringent restrictions have been enacted against the Indian Press and it was Lord Metcalfe of hallowed memory who gave substantial respite to the restrictions under which the press law were labouring.

There are also sections in the Criminal Procedure Code which can suppress a meeting as an unlawful assembly.

(4) Inequality in the eligibility to Public Office.

Long before Queen Victoria assumed the Crown of India the principle was emphatically reiterated that: "No native of British India nor any subject of His or Her Majesty resident therein shall, by reason only of his religion, place of birth, descent, colour or any of them, be disabled from holding any office under the Crown in India." But the principle has been honoured more in its breach than in its acceptance.

Moreover, the above principle does not favour the *communal claims* of appointment on population basis or on the plea of minorities, but implies "*that the equality is between the citizen and another, the question to what community he belongs not arising at all.*"

(5) Restriction on the Right of Association.

The Viceroy can declare an association unlawful. This power has been extensively abused in putting down many volunteer associations.

(6) Sanctity of Private Correspondence.

The Indian Executive is in the habit of violating the sanctity of *private postal correspondence* upon comparatively slight justifications.

(7) Absence of Judicial Independence.

The *judiciary* in India "for reasons not difficult to guess, generally in political cases, have been more anxious to *sympathise*

Later, Lord Lytton's Vernacular Press, Act came as a closing climax of the 80's of the last century, an Act which completely destroyed the freedom of the Indian Press.

The Newspaper Incitement Act of 1908 and the Press Act of 1919 were very reactionary in their nature. The Press Act was repealed in 1922 but not until the Criminal Procedure Code was so amended as to clothe executive with extraordinary powers. The Press Ordinance was promulgated in 1930 and ran its course for the usual period of six months. From the very nature of our political life, freedom of the Indian press is a contradiction in terms.

with the attitude of the executive than with the plight of the oppressed citizen."

(8) Indian Executive does not tolerate criticism.

Exceptional Powers, e.g., Section 124-A, relating to the Law of Sedition, are exercised by the Indian Executive. There is almost nothing by way of free criticism which the executive do not resent.

(9) Fundamental Rights are not enumerated.

Every constitution, other than the Indian, is furnished with a recitation of the fundamental rights of the citizen.

II. Fundamental Rights of an Indian Citizen.

The Congress Charter of Freedom.

The Indian National Congress has declared at Karachi in March 1931, the following fundamental rights which should be possessed by Indian citizens when *Swraj* is attained.

- (i) Every citizen of India shall have the right of (a) *free expression of opinion*, (b) *the right of free association, combination, and movement*, and (c) *the right to assemble peaceably*.
- (ii) Every citizen of India shall enjoy (a) *freedom of conscience* and (b) *the right freely to profess and practice his religion*.
- (iii) Minorities should enjoy their *culture, language and scripts* under special protection.
- (iv) All citizens are to be recognised as *equal in the eye of the law*.
- (v) No disability will attach to any citizen by reason of his or her religion, caste, creed or sex, *in regard to public employment, office or power or honour and in the exercise of any trade or calling*.
- (vi) Every citizen shall have the right to *keep and bear arms*.
- (vii) The franchise shall be based on *universal adult suffrage*.
- (viii) The state shall *provide for free and compulsory education*.
- (ix) The *privacy of correspondence* should not be infringed.
- (x) There shall be no capital punishment.

III. Citizenship in the British Empire.

No Common Citizenship.

Is there any common citizenship within the British Empire? *The answer is in the negative.*

Every part of the Empire, Great Britain or India, or the self-governing colonies, has each its own *separate law of citizenship*. There may be some 'common imperial understandings' based on practice or political theory, but they cannot be enforced by the Privy Council in case of violation. On the other hand, *there is a 'positive enactment' in addition to established precedents that a member of the Empire instead of enjoying a common citizenship should rather acquire those rights of citizenship which the part of the Empire in which he settles cares to concede.*

Great Britain and the self-governing colonies of the Empire freely condemn the fostering of the idea of '*nationality within the Empire*' as they believe such an idea will jeopardise their best interests and would ultimately lead to sharing of political power with the rest of the Empire, particularly with the down-trodden masses of humanity living in the dependencies.

"There is no common equal British citizenship," said General Smuts, "throughout the Empire. The common kinship is the binding link between the parts of the Empire; it is not a source from which private citizens will derive their rights. They will derive their rights simply and solely from the authority of the state in which they live. Reciprocal treatment of nationals of states is not unfriendly but no state of the Empire should have claim to force its citizen on any other states or resent their exclusion or special treatment by the latter."

CHAPTER X.

AUTHORITY AND LIBERTY.

I. Nature and definition of Sovereignty.

NATURE.—Authority or *Sovereignty* is the distinguishing mark of a state. The Sovereign must be both *internally* and *externally* supreme, internally supreme in the sense that within the state he should wield an absolute power dominating over all persons and associations, and externally supreme in the sense that he must be independent of any control or interference of other states.

DEFINITION.—Burgess has defined 'Sovereignty' as "original, absolute, unlimited power over the individual subject and over all associations of subjects. It is the undivided and independent power to command and compel obedience."

JOHN AUSTIN'S DEFINITION.—Austin's definition of sovereignty has become classical.—"*If a determinate human superior not in the habit of obedience to a like superior receive habitual obedience from the bulk of a given society, that determinate superior is the sovereign in that society and the society, including the superior is a society political and independent.*"

II. Different meanings of Sovereignty.

(a) Titular and Actual.

A sovereign is always absolute in power. But sometimes we call a figure-head a sovereign, by courtesy. The

real or actual sovereign in Great Britain is the King-in-Parliament. But sometimes we euphemistically call the British monarch, merely a titular head, the sovereign. In the strict sense of the term he is not a sovereign as he does not possess absolute power over all persons or associations of persons in Great Britain or in the British Empire. He is a limited or constitutional monarch, *i.e.*, a monarch whose powers are limited by the constitution and the customary practices. On the other hand, the late Czar of Russia was a real sovereign, in as much as there was no power within the Russian Empire to question his authority or interfere with impunity with his acts and wishes.

(b) **De facto and De Jure Sovereign.**

A *de facto* sovereign is one who is actually obeyed by the people of the state, though the basis of his claim may not be legal, *e.g.*, he may be a usurper, or a military dictator, or the victorious general of a foreign invading army temporarily in possession of the country.

De jure sovereignty, on the other hand, is based upon a legal claim. The King of Abyssinia remained the *de jure* king of Abyssinia even after the Italian conquest of that country and his flight to England.

But *de facto* and *de jure* sovereignty cannot remain separate for long. *Sooner or later the two must coalesce.* As the King of Abyssinia has recovered his ancestral throne, his *de jure* sovereignty has again coalesced with his *defacto* sovereignty.

(c) **Legal, Political and Popular Sovereignty.**

LEGAL SOVEREIGN.—The definition given by John Austin, the great jurist, emphasize the legal idea of sovereignty. It holds that *legally* the sovereign is absolute.

The idea represents the lawyer's conception. The idea does not brook any limitation or restriction upon the powers of the legal sovereign. The latter is represented as the *original* and *final* authority within the state.

POLITICAL SOVEREIGN.—Others hold that the legal sovereign who is recognised by the law courts is not always the ultimate repository of political power. The British Parliament is the legal sovereign in Great Britain. But is it absolutely supreme? "Behind the sovereign which the lawyer recognizes, there is", says Prof. Dicey, "another sovereign to whom the legal sovereign must bow." In Turkey, though the Sultans were formerly the absolute sovereigns, the priesthood and military classes wielded greater or lesser influence over the sovereign at different periods of history; in Russia, though Czar Nicholas was the absolute monarch, Rasputin, the lewd priest, dominated over him through the queen consort during the latter part of his reign; and in England though the *British Parliament is recognized by law, as the absolute sovereign*, still we can never ignore the vast *influence of the electorate* over it. Thus everywhere there are powerful influences at work behind the legal sovereign and we give them the appellation, *political sovereign*.

POPULAR SOVEREIGN.—The theory of popular sovereignty affirms that the ultimate repository of political power is always found in the mass of the population. Popular sovereignty expands according as political liberty spreads. It implies a stage of universal or *manhood suffrage* with each individual having one vote, and the people having control over the legislature through the representatives of the people. The theory not only hints and welcomes the idea of greater accession of power to the lower or popularly elected house, but refers as well to accession of power by the proletariat.

III. The Attributes of Sovereignty.

The distinguishing attributes of sovereignty may be summed up as follows:—(1) Exclusiveness; (2) All-comprehensiveness or Universality; (3) Permanence; (4) Inalienability; (5) Imprescriptibility; (6) Unity or Indivisibility; and (7) Absoluteness.

It is "*exclusive*" in the sense that it is *one supreme* power within the state. It is "*all-comprehensive*" in the sense that all persons or things or associations that live within its territorial jurisdiction are under its sway. As states do never die, though governments may be destroyed and reorganized, so the *office of a sovereign* is "*permanent*" and it *never dies*, though a particular monarch may die or be dispossessed. Hence arose the saying, "the king is dead, long live the king." That is to say, the king is dead, his successor assume the office and may live long to enjoy it. A state cannot "*alienate*" or barter its sovereignty without self-destruction. Cessation of territories or abdication of a king are not cases of alienation of sovereignty. "*Imprescriptibility*" of sovereignty means that its powers cannot be lost by non-use and lapse of time. The sovereign can enforce any claim at any time he likes. It is "*indivisible*", *i.e.*, it is one whole and cannot be divided into two or more parts. To divide it is to destroy it. It is *one* supreme will and so "*absolute*" in its nature.

IV. Location of Sovereignty.

Where is the Sovereignty of a State located?—The political and popular sovereignty are located *in the people*, while *legal sovereignty* is located, according to some, (a) in the organization which has a legal power to *make or amend the*

constitution of a state, or (b) in the sum-total of the law-making bodies existing within a state.

The consensus of opinion is in favour of holding that *sovereignty rests with the sum total of all-law-making bodies in the government*, i.e., all law-making organizations (legislatures) within the state, both central, provincial and local.

V. Various meanings of Liberty.

The term liberty is used in various senses. It may mean several things:—

(1) Popular meaning.

In everyday usage the term is variously used to mean *mere license, freedom from conventions, freedom of thought*, etc. Etymologically it means absence of restraint (*liber* means *free*).

(2) Natural liberty.

Natural liberty is presumed to have existed before the state has come into existence. So at that period there could be no authority to check the so-called *liberty* or *license of an individual*. Might was right. But can freedom exist in a state of anarchy? Rousseau defined natural liberty as “unlimited right to anything that tempts man and which he can obtain.” But such a conception of liberty is unacceptable to-day. If liberty means the right of an individual to do whatever he likes irrespective of the wishes or rights of others, then only one person can have absolute liberty, and that person needs be all-powerful and omnipotent. Such capricious license can hardly be called liberty. The idea of *natural liberty is merely a contradiction in terms*.

(3) Civil or Individual Liberty.*

Civil liberty means the freedom or the right of an individual to do whatever he likes so long as he does not interfere with the rights of others.

Civil liberty can only exist in a civil society or State. The state not only creates but protects such liberty against interference by other individuals and even against itself. Civil liberty *consists of* freedom of speech, movement, person, property, etc. Civil liberty includes religious liberty and may also include the right to the means of livelihood and subsistence.

VI. Liberty and Authority.

Liberty and License.

If liberty means absence of restraint, then only one person can have absolute liberty, and he must be all-powerful and omnipotent. But such capricious licenses can never be called liberty.

Liberty simply means the right of an individual to do whatever he likes *so long as he does not interfere with the rights of others*. The inclination "to interfere with the rights of others" can only be kept in check in the presence of an all-powerful coercive power. Thus the term liberty presupposes the existence of a coercive power,—a sovereign authority, having unlimited, absolute, supreme power within the state (and also not being subject to interferences from without) *which is to set bounds to the liberty of each and to enforce the rights of all*. Limitations on individual liberty

*"An individual who does not suffer from any social or legal restrictions is described as a free man. He is able to think, speak, and act for himself and is subject to the rule of law."—(Lahiri and Banerjee).

are really the guarantees of freedom and without them liberty would degenerate into anarchy.

Law and Liberty.

But how does the Sovereign authority express and enforce its will. It does so through its commands. These commands take the form of *laws*. Laws do not restrict freedom but they are the conditions of freedom. By pursuing laws and acting according to them, an individual can enjoy his liberty without provoking any interference from the state authority. The laws also protect him against interferences from other individuals.

Thus we find that liberty and authority do not conflict with each other. *They are not contradictory terms, but correlative, compatible and consistent, and the recognition of political authority is the indispensable condition of liberty.*

Civil liberty implies not only the rights of individuals against other individuals but also the rights of individuals against the government as guaranteed by it.

We are to remember in this connection that liberty for some can never imply serfdom for others. There is one rule of law for one and all.

(4) Political or Constitutional Liberty.

Where there is a "free government"—that is, where the government is chosen by and is responsible to the body of the people (*i.e.*, where the people in addition to freedom *share in authority*), the liberty enjoyed by the citizens is called *political or constitutional liberty*. "*The right of the people to share in authority is called 'political liberty' as distinguished from 'civil liberty' which is the right to protection against interference, either by the state or the individual.*" It consists of the right to vote, to hold public offices, etc. Naturally it exists only in a democratic state.

(5) National Liberty.

It is often used to designate a condition of national independence, *i.e.*, external sovereignty. But it may also denote the idea that the adult citizens possess both civil and political liberty and have a voice in the government.

"Liberty, for nations or individuals, is, in fact, the condition of political self-government. Both in the case of individuals and nations, liberty is possible only when it is so defined and limited that freedom for some may not be serfdom for others."—(*Lahiri and Banerjee*).

(6) Economic Liberty.

Without economic freedom there cannot be any political liberty. Economic freedom has a very wide meaning. It not only implies the unrestricted right of an individual to earn his own livelihood or the freedom of a person or a nation to exploit the national resources to the best advantage, but it also means the right to exercise one's free choice in selecting his occupation untrammelled by status and custom.

VII. Guarantees of Civil or Individual Liberty.

How Sovereignty Guarantees Liberty.

The state guarantees the liberty (civil liberty) of the individual—

(1) *Against the powers of the government—i.e.*, the legislature, the executive and the judiciary. The state, by what is called Public Law, creates the government and outlines the scope of its powers and the manner of their exercise. Public Law determines the sphere of individual liberty and protects him against governmental encroachment. In short, the state guarantees that in certain matters it would not encroach upon individual liberty. *This is the negative side of individual liberty.* The sovereign authority of the state thus guarantees liberty against government.

(2) The state also guarantees the liberty of the individual *against other individuals* by defining the rights which it will aid, and specifying the way in which it will aid them, and thus acts as a protector and a defender. *This is the positive side of individual liberty.*

CONFLICT BETWEEN SO-CALLED SOVEREIGNTY AND (POLITICAL) LIBERTY.—Political liberty, *i.e.*, the right of the people to share in authority has grown with democracy (*i.e.*, with the government of the people, by the people and for the people). *But very soon it was found in democratic states that sovereign authority which was vested in the representatives of the people began to be misused* through the domination of legislatures by cotteries which wanted to rule the state to further their own and class interest to the *prejudice of individual liberty*. But this tendency to encroach upon liberty (political) by cliques and juntas is now attempted to be avoided by such devices as the separating of three departments of the government from one another and putting one as a check against the other, by a system of frequent election of the legislature, by the referendum, by forming local self-government to arouse local political interests and finally by written constitutions. *In this way modern democratic states attempt to protect or safeguard liberty.*

We should, however, remember that the protection of liberty does not depend upon constitutional restrictions and state guarantees but on the constant jealous vigilance of the people. To keep Hitler or Mussolini in check the mobilisation of public opinion is more powerful than a constitutional clause safeguarding individual liberty.

VIII. Liberty and Equality.

Liberty thrives under equality or equal opportunities.

It is pointed out that even when full liberty is given to persons they are seldom found to prosper equally. So how can there be any compatibility between liberty and equality? But do all men rich and poor, are allowed *equal liberty* or

* The referendum is a process by which a proposed law or constitutional amendment is submitted to popular vote which becomes law when ratified by the required majority.

opportunities to succeed in life? Much of the inequality which we see around us seems to have resulted from *artificial restriction of liberty*. A well-to-do man's son seems to have apparently just equal opportunities for education as a poor man's son. Both can get admission in a government school or a college there having no restriction upon it. But the poor man's son cannot afford to get education as he cannot pay for it. Naturally, we find the one to be educated and cultured, while the other goes unlettered. Such differences would not have persisted, had the poor man's son been given equal chances in life. Thus when equal opportunities are provided to all we cannot but find *liberty and equality to be complementary*. Under unequal opportunities, full freedom instead of bringing about an equality leads to greater inequality. So '*liberty along with equal opportunities*' can alone lead to equality.

Less liberty and more equality.

But we are not to conclude that all men are of equal ability and would always thrive and prosper alike under equal opportunities. All the sons of rich men do not do equally well in a school or a college. Again, *liberty under unequal conditions is inimical to progress*. When a multi-millionaire piles his millions and affirms them to have been obtained under free competition, it behoves the government to enquire into the case and sometimes to put restraint upon him so that his weak and unequal competitors may not be ousted from the arena of competition leaving him the sole monopolist survivor. From this we may conclude that *less liberty and greater opportunities lead to greater equality* and are favourable to the progress and happiness of mankind.

Four Forms of Equality.

Bryce mentions four kinds of equality, *civil, political, social and natural*.

Civil equality implies the enjoyment of some civil rights and liberties by all the citizens. Civil rights include protection against private persons as well as against the Government.

Social equality implies that no man is recognised as socially superior or inferior to any other members of the community.

Natural equality implies that all men are born equal. But are not men endowed with unequal abilities?

In addition to the four above forms, we may speak of *economic equality* which has been defined by Laski as 'an attempt to give each individual as similar a chance as possible, to utilise what powers he may possess.'

IX. Law: its sources.

Definition of Law.

Austin has defined *law as the command of the sovereign*.—But this definition is too narrow because it excludes all those usages and customs which are supreme in every society and with which the sovereign power seldom dares to interfere. So, Woodrow Wilson has defined Law "as that portion of the established thought and habit which has gained distinct and formal recognition in the shape of uniform rules backed by the authority and power of government."

The sources of Law.

They are the following:—

- (1) *Custom*.—They crystallize gradually into law.
- (2) *Religion*.—Religion lays down rules of conduct which are recognized by the sovereign and which gradually develops into law.
- (3) *Judicial decisions*.—Judges build up laws by their decisions on points of law not covered by any legislative enactment, and these decisions serve as precedents and become binding on the law courts so long as they are not reversed by other decisions.

(4) *Scientific discussions*.—The commentaries of great writers on law often serve as a direction in the law courts in the decisions of cases. They also serve as a basis for future legislative enactments.

(5) *Legislation*.—Legislatures create and pass laws. It is the most important source of law to-day.

(6) *Equity*.—When existing laws become unsuitable for application because of changes in times and conditions, or when a new point of law arises not provided for by any enactment, judges profess to decide cases on general principles of justice in the absence of any better line of legal direction, and such decisions are accepted later on as precedents acquiring all the force of positive law.

[LAW AND LIBERTY.—Read, p. 84].

Law and Morality.

Though they are closely related, there are differences between them. Morality depends for its *sanction* upon public opinion, while law depends upon the authority of the state. Morality deals with the *thoughts of men*, law with his outward acts only. Many things, again, which are *not immoral are prohibited by law*, e.g., rash driving in a crowded street. *Again laws which go ahead of moral ideas tend to be inoperative*, e.g., the Widow Marriage Act was almost a dead letter when it was first enacted in India, while *moral ideas which fall behind the laws also become obsolete*, e.g., the *suttee rite* in India has become obsolete in course of time though it was formerly considered to be an act of greatest merit and had ultimately to be suppressed by statute by Lord Bentinck.

Questions:

1. Explain the term 'liberty'. Is it consistent with authority? (Cal. 1926).

2. Explain fully civil and political liberty with illustrations. (Cal. 1929).
3. What do you mean by Law? (Cal. 1928).
4. Explain fully the idea contained in the following:—"Recognition of political authority is the indispensable condition of liberty." (Cal. 1929).
5. "Law is the condition of Liberty." Amplify. (Cal. 1930).
6. Define Law. (Cal. 1931).
7. Explain the relationship between law and liberty. (Cal. 1932).
8. Write a short note on political and civil liberty. (Cal. 1932).
9. Examine the statement: Law is the condition of liberty. (Cal. 1933).
10. In what sense is liberty a creation of the law? (Cal. 1935).
11. Can liberty exist without Law. (Cal. 1937).
12. 'The true test of liberty lies in the extent to which the law of the land help the citizen to develop all that is good in him.' Discuss. Examine the relation between law and liberty. (Cal. 1939).

CHAPTER XI.

GOVERNMENT.

I. Importance of Government.

In modern democracies, a citizen as he or she attains the age of majority is entrusted with a voice and a share in the administration of the state. So it is desirable that he or she should have a clear idea as to what a government is. Moreover, modern governments are increasingly regulating our life in almost every detail, and our happiness, prosperity and welfare depend on whether a government is efficient, honest and sympathetic. Moreover, a citizen requires a thorough grounding in political principles so that he or she can distinguish between true and false dogmas and prophets.

Is Government a necessity?

THE ANARCHIST THEORY.—There is a class of people who have got no faith in efficacy of government. They are known as *anarchists*. They hold that the existence of government is subversive to the best interests of individual liberty. It is not only an evil but an unnecessary evil. It must be suppressed and annihilated. It impedes the natural growth of man in as much as it kills his initiative through constant governmental interference with his liberty. *By liberty they understand complete license, the freedom to do whatever a man likes.* But such a license would lead to the oppression of the weak by the strong in the absence of any form of governmental authority. *Removal of the system of government would reduce mankind to a state of nature* which cannot necessarily be an ideal state of existence. The anarchists, however, admit that the only justification for government is the protection of the weak, but such a safeguard can be provided by organizing the citizens into voluntary associations. We must not, however, confuse the *anarchist*

doctrine with the dogmas of *terrorists* who form secret societies to subvert a particular form of government in favour of another.

II. The Structure of Government.

We have already seen that a government is composed of three departments, the legislative, the executive and the judiciary. The *legislative* function mainly consists in the making of laws, the *executive* in the carrying out of laws, and the *judiciary* in interpreting the meaning of laws in order that they may be applied in particular cases. The three departments must act harmoniously and in hearty co-operation.

(1) The Legislature.

Composition of the Legislature.

Of the three departments of the Government, the legislature to-day is the most important as it is the most powerful. It represents the people and modern governments being mostly democracies, legislature has assumed the highest powers everywhere. In a responsible form of government, *i.e.*, where the executive is responsible to the legislature, the former is chosen by the latter and holds office during the latter's pleasure. The legislature to-day votes supplies to the government, can impeach the executive and can dismiss judges for misbehaviour. It not only expresses the will of the state but makes through it the wishes of the people vocal.

It is composed either of one or two houses.

Merits of Bi-cameral Legislatures.

A two-chambered or bi-cameral legislature is preferred to unicameral or one-house legislature for the following reasons:—

(1) *The bi-cameral system serves as a check upon hasty, rash and ill-considered legislations* by allowing time to people to reflect on the questions at issue. A single legislative house is too much exposed to the influence of the moment. It may be swayed by emotion, by passion, and by the influence of oratory.

(2) *The bi-cameral system gives representation to different interests or classes and to minorities in the two different houses and thus it makes a more correct interpretation of the general will possible.*

(3) *A double chamber affords protection against the despotism of a single chamber.* It checks the tendency of one house to be tyrannical through the co-existence of another house of equal authority.

(4) *It maintains the independence of the executive.*—A one-house legislature which professes to represent the popular will is apprehended to tyrannize over the executive. Two houses by checking each other give greater freedom to the executive.

Demerits of Second Chambers.

But a second chamber should be guarded against a mere duplication. Moreover, "if a second chamber is in agreement with the first, it is superfluous, and if it is not in agreement with it, it is pernicious." Second chambers generally ally themselves with propertied classes.

Composition of the Houses.

Members of the legislature are everywhere *elected*. In England the representatives of the upper house, the House of Lords, are *hereditary* members. *Nominated* or *appointed* members are found rarely, particularly in the lower or people's house, though it is very common in India, both in the central and local legislatures.

The lower houses are elected by direct election and under the system of universal suffrage. Upper Houses are generally elected under a restricted system of suffrage, such as, higher age and greater property qualifications. Their tenures are for longer terms than that of lower houses.

Co-ordinate powers of Bi-cameral Legislatures.

Theoretically, the upper and the lower houses possess co-ordinate and equal powers. But almost everywhere, except in the federal state of America, the budget, *i.e.*, the instrument for voting money, is under the absolute control of the lower house. It is so, because a real equality of powers of the two houses of the legislature would often have led to deadlocks in the government, neither house yielding to the other.

The term 'upper house' does not imply a stronger house. It is rather proverbially weak and lives by sufferance, except in the case of the United States.

The Process of Law-making.

In order that the legislature may not degenerate into a mere babel of tongues, certain procedure of business has been universally adopted in all countries.

The Procedure to Pass a Bill.—Each bill has to be passed three times in each house of the legislature, known as the first, second and third reading.

The *first reading* of a bill in the lower house is usually a formal one, there happens to be no discussion. The introducer moves for leave to bring in a bill; leave is allowed by the Speaker or President of the house and the bill is filed with the Clerk of the House, who reads its title aloud. Then the house orders the bill to be printed and to be made ready for a second reading. No debate or voting takes place during the first reading.

The motion for a *second reading* leads to a real debate on the principle of the measure. If the bill is passed by a majority, it is referred to the *Standing Committee*.

Then comes the *committee stage*. In the committee the bill is discussed in detail, clause by clause, and amendments are made thereon. If the committee had made any amendments, they may be discussed and voted upon.

Then follows the *Report stage*, and the committee reports on the bill to the house.

Then the bill goes through the *third reading*.

After the bill successfully goes through the third reading, it is sent to the *other house* where it has precisely to go through the same stages. If the bill is defeated there by a majority, it is automatically dropped. If it is amended, then it is sent back to the originating house for reconsideration. If the latter does not accept the amendment, or the houses fail to arrive at a compromise, the bill is dropped. Finally, if the bill survives the third reading, with the consent of the chief executive it becomes an Act of the legislature.

(2) The Executive.

By the Executive in a democratic state we understand the body of officers (including persons from the King or the President and the ministers to the police constable) whose function is to execute the law of the land as passed or permitted by the legislature.

Real and Nominal Executive.

The executive may be *titular or nominal*, i.e., it may either possess no real administrative power, as it is with the King of England, or it may be real, for example, as it was with the late Czar of Russia, or as it is with the President of the United States. The latter, when once elected, holds his office for the full term, and a vote of want of confidence

passed in the legislature can never force his resignation. He also holds an extensive power about appointments, etc.

The ministers are generally appointed by the King or the President from the elected members of the legislature. They hold office so long as their party is in majority in the legislature and resign office as soon as they lose it. So they are called *parliamentary executive*. In addition to them there is the *permanent executive* or the *Civil Service*. They carry on the day-to-day administration and is known as the bureaucratic part of the administration as opposed to the parliamentary or democratic part. The bureaucracy (read, Forms of Governments) has to-day been considered the most efficient part of the administration even in democratic states like Great Britain, not to speak of India.

The executive is organized in several departments. Each department is left in charge of a minister or a parliamentary executive. He is helped by a permanent executive or bureaucratic head of the department. The chief departments comprise: (1) *Defence or War Office* in charge of the Army, Navy and the Air Force, (2) *Home Department* in charge of law and order, etc., (3) *Foreign Department* in charge of foreign affairs, (4) *Finance Department*, (5) *Education Department*, (6) *Industries and Labour*, (7) *The Department of Trade and Commerce*, etc.

Executive should be Single.

Plurality of the executive has been abandoned everywhere. While it is true that "in a multitude of councillors there is wisdom," it is also true with reference to executive work that "one bad general is better than two good ones." Single executive is preferred to plural because executive work requires unity, finality, quickness and secrecy. The experiment of two executive heads working together within a single state has signally failed in Athens, Rome and Sparta, and also in France during the period of the Revolution.

Choice of the Executive.

The chief executive may be either *hereditary or elected*. With the downfall of monarchies, the executive holding hereditary offices is becoming obsolete. Hereditary executive may

be either nominal, *i.e.*, constitutional, or real. The British King is a figurehead, the real power is possessed by the cabinet. Still it is said that the hereditary principle of succession as adopted in England has contributed to the stability and permanence of the constitution.

The elective principle is on the ascendant in modern democracies. Election of the *chief executive*, *i.e.*, the President of a republic, may take place in three ways. He may be *directly elected* by the people, as is the case in Germany, or he may be *indirectly elected* by a council (known as the electoral college) which in its turn has been directly elected by the people, as is the case in the United States of America, or *by the legislature*, as is the case in France.

The functions of the Executive.

They are mainly five in number:—

(1) The executive possesses *diplomatic power*, such as treaty-making, etc.

(2) It has got *legislative and ordinance power* in as much as it assembles and adjourns or dissolves the legislature, and can pass emergency laws or *ordinances* having force for six months.

(3) It has got complete *control over civil administration*.

(4) It possesses *judicial power* in as much as it can pardon convicted criminals who pray for mercy.

(5) It is in charge of *military power*, *i.e.*, it has command over the Army and the Navy.

(3) The Judiciary.

The third department of the government is judiciary. The function of a judge is to adjudicate, *i.e.*, to decide cases according to the established law of the realm. He is to

interpret the law where it is ambiguous and to decide cases according to principles of equity and common sense where the law is silent.

The most important problem concerning judiciary is *how to conserve its independence*, otherwise a judiciary subservient to the executive would be dangerous to the cause of liberty.

The Independence of the Judiciary.

The independence of the Judiciary can be safeguarded, (a) if judges are appointed by the executive rather than by election, and (b) when once appointed are made irremovable so long as they are of *good behaviour*, and are (c) paid adequate salaries to keep them above want and temptation.

GRADES OF COURT.—Courts may be classified as *Civil* and *Criminal*. In criminal cases the judges are aided by juries who pronounce their judgment on facts rather than on law. There are several grades of law courts beginning from the lowest to the High Court. The highest court of appeal in England is the House of Lords; and the Judicial Committee of the Privy Council is the highest court of appeal for the dominions, colonies and the dependencies. To meet half-way the claims of the dominions to have their own domestic court of final appeal, the Judicial Committee are now being formed of judges of whom at least two belong to each of the dominions.

Questions:

1. The business of a modern government divides itself into three main parts—legislative, judicial and executive. Illustrate. (Cal. 1935).

2. What are principal organs of government, and what are their respective functions? (Cal. 1937).

CHAPTER XII.

THE ORGANIZATION OF MODERN DEMOCRACY.

I. The Electorate.

Almost every government to-day is organized on the principle of democracy. So the organization of democracy may be said to mean the ways in which the principles of representation are broad-based on popular elections.

Principle of Representation.

Direct participation by each citizen in the actual administration of the state as obtained in the Greek or Roman city states is not possible at present, particularly because of the vastness of the size of modern states.

The modern representative system had its origin among the Teutons. The beginnings of the modern representative system may be traced to the *folk moot of the early Teutons* of Germany. The *Witanagemot* of early English history was the assembly out of which in course of time the first representative legislature known to history, the British Parliament, was evolved. The representative system, however, has developed at a very slow and tardy pace in Continental Europe.

Election.

When the whole body of citizens exercise their right of choosing a representative, the process is known as *election*, the particular act of choice is called *voting*, the citizens who cast their votes are called *voters* or *electors*, and the whole body of electors is collectively known as the *electorate*.

The true basis of Franchise.

IS SUFFRAGE A NATURAL RIGHT.—The view that *suffrage is a natural right* got currency in France and the United States during the latter part of the eighteenth century. In both the

countries the doctrine found its origin in the revolutionary movements. In France, Montesquieu, Rousseau, Robespierre and others strongly supported and developed the idea:—"Sovereignty resided in the people and that, in consequence, every citizen had an inalienable right to participate in the exercise of that sovereignty, the natural right of voting followed as a logical necessity."

But though the idea of popular sovereignty was proclaimed by the French Revolutionary Constitutions, it is peculiar that they first proclaimed the idea that *suffrage is not a right but an office (function)*. They emphasized the fact that every citizen possesses some rights. "*But this was not the right to vote; the citizen could vote only if the legislature had conferred upon him this function.*" But this view has not been accepted unanimously.

In modern times writers hold the view that the right of suffrage *is an office or function which is enjoyed as a privilege only by such persons living within the state who are believed to be most capable of exercising it for the public good.*

Adult Suffrage and Manhood Suffrage.

Adult suffrage means suffrage for both men and women, while manhood suffrage means suffrage for men only. Adult suffrage is the modern ideal. The women should not be allowed to go unenfranchised.

The true basis of suffrage to-day has been declared *rather a privilege than a right*. To enjoy a privilege some qualifications are necessary. The qualifications are mainly age, sex, property and education. Sex disqualification has almost been universally discarded, while property and educational qualifications are being increasingly abolished. So the only proper basis seems to be the age of discretion. To be productive of any good, democracy must be administered by men of discretion. It seems to be the only true basis.

Adult suffrage is the true corner-stone of democracy. It supports the ideal that every citizen is as much capable as another. Restrictions on suffrage lead to political tyranny and to the dwarfing of human intelligence. Adult suffrage solves to some extent the problems of proportional representation.

Maine and Lecky, however, strongly condemns adult suffrage as it will lead to government by the poor and the ignorant. But in modern times compulsory education being the rule everywhere, we may rest content with Mill that when universal education precedes universal enfranchisement there cannot be any danger. The world is keen to-day about adult franchise. But it must be remembered that universal suffrage should preferably precede universal enfranchisement, but it must never be made a condition precedent. To-day in many countries the qualification of maturity of age has been made the sole qualification and property and educational qualifications have been discarded.

Adult suffrage in India is as yet a far off cry. Universal compulsory education is not intended to be introduced early yet it is made a condition precedent to adult suffrage. Less than 8 per cent. of the population is literate. The new constitution proposes to extend suffrage to only 10 per cent. of the adult population. Property and educational qualifications are demanded of voters in India. (Read pp. 68-69).

How far Adult Suffrage is justifiable?

Modern democracy is in favour of *universal or adult suffrage*. But we should remember that "*suffrage is not a natural right of all men, but a privilege granted by the state to such persons or classes as are most likely to exercise it for the public good.*" It is, however, true that all persons are not *equally* interested nor are they *equally* competent to understand the affairs of the state. So all persons cannot claim suffrage as a right.

Minimum Qualifications.

Prof. Gilchrist says: "If the word citizen means every able-bodied, sane, grown up individual who can understand the elementary relations of things, and who by birth and

loyalty belongs to the state in which he or she votes, then there would be little to say against the theory of universal suffrage."

The qualifications demanded above comprise a minimum and it is a notable fact that in every country the qualifications have been so lowered as to secure universal suffrage.

Merits of Adult Suffrage.

In spite of all opposition, the 'democratic ideas of liberty and equality have swept away all criticisms' and *adult suffrage is almost the rule to-day*. Adult suffrage has got great educative values in as much as it stimulates public interest in public affairs. Finally, it not only secures equality of political right but serves to solve the problem of minorities. The Hindus of Bengal who form the minority community instead of asking for separate electorates and reservation of seats as political safeguards are willing to accept adult suffrage as an welcome alternative.

The Restrictions on Universal Suffrage.

But in practice universal suffrage has been restricted everywhere in the sense that individuals of every age, qualification and character have not been conferred the right of franchise to vote in all elections.

Mill, Lecky and others, some of whom are the greatest exponents of modern democracy strongly recommend for some restrictions on universal suffrage,—either through educational or through property qualifications.

The grounds for restriction mainly urged are the following:—(a) Very few persons can exercise the privilege prudently; (b) and the poor and the ignorant who compose the majority of the population would sweep the polls.

People who are excluded from Suffrage.

Most of the states exclude absolutely or conditionally,

females, minors, insane persons and idiots, bankrupts, vagrants, holders of certain offices and soldiers in actual military service, etc.

Qualifications needed of a Voter.

In order to be a qualified voter it is universally required that he should attain maturity of age; *the age limit*, however, differs in different states, varying between twenty-one and twenty-five years.

The sex was formerly a bar to suffrage but the restrictions on *woman suffrage* have almost been removed everywhere.

To exercise the right of vote one *must be a citizen* and it is usually necessary that he *should reside at least for a specified period* in the constituency in which he wants to exercise his right of suffrage. In England, a qualified voter of any constituency can stand for election in any other constituency but cannot exercise his right of franchise in any but the constituency in which he resides. Plural voting has been abolished.

Property qualification, once so important, is now considered to be unnecessary. Even the payment of taxes in some states is not regarded as an essential qualification.

Of the mental and moral qualifications, religious qualification has become obsolete with the growth of religious tolerance. Criminals, idiots and lunatics are everywhere excluded. Literacy is a good test but the mere knowledge of the three R's does not guarantee the possession of necessary civic qualities.

Vote by Secret Ballot.

In order to do away with the evils of intimidation, coercion, and undue influence that obtained under the system of open elections, the system of vote by ballot, *i.e.*, the plan of casting the vote by the elector in secret by endorsing the

ballot paper in favour of his choice, has been introduced. Open voting was practised in direct democracies of old as well as in the early stages of representative government. Mill supported it on the ground that "the duty of voting, like any other public duty, should be done under the eye and criticism of the public."

Compulsory Suffrage.

The system of compulsory suffrage which enjoins that every voter should record his votes during times of election prevails in a few countries, *e.g.*, in Belgium. The purpose is to encourage interest of the voters in public affairs. But the system often defeats its own purpose by forcing an unwilling voter to cast his vote in a random way. It may upset all the calculations of the most desirable candidate.

Essentials of a sound Electoral System.

The vote must be by *ballot*, the system of election should be *direct* and the suffrage must be *universal*. *A constant touch between the electors and their representatives should be kept* so that the former may feel that they are enjoying real self-government. Careful provision should be made to guard against corrupt practices during elections. Voters should be enlightened of their duties through newspapers, pamphlets and platform speeches.

The systems of plural voting, separate electorates, representation of special interests, etc., do not show a healthy state of affairs in India.

Woman Suffrage.

Women were excluded generally from the right of suffrage till very recently. Towards *the latter part of the nineteenth century*, however, there came a change in opinion as to the desirability of clothing women with the right of vote. To-day, almost in every country women have been unconditionally allowed the privilege of suffrage. In India, women with property qualifications have been admitted to the privilege.

Arguments against Woman Suffrage.

(1) The opponents argue that if women be allowed to share in politics *many of the feminine qualities would be destroyed.*

(2) It would have a tendency *to introduce discord and dissension in domestic life by setting one member against another.*

(3) The privilege of suffrage rests *on the ability to serve in the army.*

(4) Finally, the *majority of women do not want it.*

Arguments in Favour of Woman Suffrage.

(a) The advocates, on the other hand, argue that *mere sex cannot serve as a bar.* As women are physically weak they require greater protection and safeguards.

(b) Again, if illiterate labourers are allowed the privilege, then why should educated women be excluded.

(c) *It is emphasized* that the admission of women to public life *would introduce a purifying, ennobling and refining influence.*

(d) Finally, if women be allowed to manage their estates freely, i.e., *if civil enfranchisement is to be conferred on them, then why they are to be debarred from political enfranchisement.*

Suffrage of Coloured People.

In Europe and America the Asiatics are not allowed full right of suffrage. Even within the British Empire, particularly in Canada, South Africa, Kenya and other places, the Indians are excluded from suffrage. The reasons are social (a fear of intermarriage with the Asiatics), economic (the underselling of Europeans by Indian traders who live cheaply and the fear of a lowering of the general standard of life), and political (the fear of a rapid growth of Asiatic population who might ultimately reduce the Europeans into a hopeless minority).

II. Modes of Election.

Instructed vs. Uninstructed Representation.

The question is, Should the representative be instructed to vote by his constituency on every question raised in the legislature?

Lord Brougham's opinion:—"The modern representative represents the people of the whole community, exercises his own judgment upon all measures, receives freely the communications of his constituents and *is not bound by their instructions.*" He should possess full liberty of thought and action without any restraint whatsoever and any interference with his free will on the part of electors is contrary to the principle of representative government. *Discretion, ability, probity, respectability are the necessary qualities of a representative.* But if he is to act under instructions then he is no better than a mere speaking trumpet of his people.

But modern democracy is not willing to accept the representative in a reverential spirit. It holds the view that a representative is a servant of the people, a mouthpiece merely. He is to register only the opinion of his constituency. But such a view is untenable on intellectual, moral and political grounds and also on reasons of public policy. *Further, no expedient method can be evolved to instruct the representative.* The question resolves itself as to whether he is to be instructed by the voters of his own party, by the whole or by its majority, or whether by the majority of the whole constituency composed of electors belonging to both the rival parties. Again, the method of instruction seems to be the most elusive. So we may finally conclude—

Though the representatives are not to take instruction, they are not, however, to ignore lightly or recklessly disregard the opinion of their constituencies. On the other hand, the

electors are also to respect the views and judgments of their representatives.

Direct vs. Indirect Representation.

Direct representation is said to be one in which the representative is elected directly by the voters. It is said to be indirect where the voters elect in the first instance an intermediate agency (electoral college) which finally elects the representative.

THE BENEFITS OF INDIRECT REPRESENTATION.—It is pointed out that the system (1) *does away with the defects of adult suffrage* in as much as it does not leave the ultimate choice of the representative with the hydra-headed multitude. (2) As the representative is not elected in the first instance, *popular passion and excitement and party struggle become less evident* at the time of primary elections.

THE DEFECTS OF INDIRECT REPRESENTATION.—It is pointed out that the system (1) makes the *elector apathetic* in as much as he knows that he does not exercise the final choice in the election of the representative. (2) The system is *out of harmony with modern democracy*, which considers each man to be as much capable as another. (3) The system is *susceptible to bribery* as the final body of electors (the electoral college) is small. (4) The system amounts to nothing but a *cumbrous formality* as the representatives are finally chosen under party pledges, the members of the electoral college having no free choice.

The indirect system may profitably be employed in cases (a) where a second chamber has to be elected on a popular basis like the lower house and a mere reduplication of the latter has to be avoided, or (b) when special interests, like labour, trade, industries, etc., have to be given representation.

Electoral Procedure.

At first the electoral register is published. Every voter is to see that his name has been entered. Candidates are then to send in their nomination papers duly proposed and seconded before the due date. On an appointed date a scrutiny is held to see whether the nomination papers are in order. The date of election and the various centres or booths for recording votes are next announced. Before election,

Returning Officers are appointed to record votes and each one of them takes charge of the ballot box in his booth. After the election is over the ballot boxes are opened, votes are counted and results are announced. When any candidate loses the election through some corrupt practices resorted to by any of his rival candidates, he can lodge an election petition for setting aside the election on depositing a fixed fee which he is to forfeit in case he fails to substantiate his allegations.

III. Problems of Representation.

(a) Representation of Minorities.

Division of opinion is the sign of life and this division assumes shape in the form of a majority and a minority party. If the system of representation be not equitably regulated, it may so happen that the minority party may go without any representation at all. Mill declared that it is an essential part of democracy that minorities should be adequately represented. "The Government of the whole people", said Mill, "by a mere majority of the people" is unjust and undemocratic. He advocated *proportional representation*.

Illustration.

Take a concrete example. Suppose in a country X, the legislature is composed of 100 members, each of whom is elected by a small majority of votes from each of the 100 single-member constituencies or electoral districts into which the country has been divided for purposes of election and representation. Suppose, there are 100 electors in each constituency, their total number being 10,000 in all the 100 constituencies taken together. Further suppose, that in country X there are two political parties, 'A' and 'B'. The party 'A' account for 60 p.c. of the voters and the party 'B' for only 40 p.c., that is to say, there are 6,000 voters of the 'A' party and 4,000 voters of the 'B' party. Next suppose that the voters of the 'B' party are not in majority in any one of the constituencies. So in case of election, from each of the constituency or electoral district, a member of the 'A' party is elected by a small majority of votes and none

from the 'B' party though the strength of the latter in the whole country is 4,000 to the majority party's 6,000. Thus 40 per cent. of the people of the country X would go altogether without any representation. To do away with this injustice and anomaly various devices have been proposed, generally known as *schemes of minority representation*. The inequitable system explained above point out the defects of REPRESENTATION ON A GENERAL TICKET.

The following are some of the most important proposals:—

(1) LIMITED VOTE PLAN.—If from a constituency more than one representative are to be elected, each voter under the existing system is allowed to cast as many votes as there are representatives to be elected. Under the *limited vote plan* each voter is allowed a less number of votes than the number of representatives to be elected.

For example, suppose from the district A, three members are to be elected. If each voter be allowed three votes then the party which can command a bare majority of voters will capture all the three seats. On the other hand, if each voter be given only two votes, then the majority party can never elect more than two representatives and the minority party can hope to send one representative to the legislature.

(2) THE CUMULATIVE METHOD.—This scheme proposes that instead of allowing each voter to register only *one* of his votes in favour of his candidate, which is the existing and universal rule, let each voter be given the option of casting or piling *all his votes* upon the candidate of his choice. In that case the minority has got a chance of sending at least one candidate from a constituency which is to elect more than one representative.

(3) THE PREFERENTIAL SYSTEM OR SINGLE TRANSFERABLE VOTE:—This system is better known as the *Hare Scheme*. The plan is to constitute the whole of a country into one electoral district or to parcel out the country into several big constituencies for electing three or more representatives from each of such constituencies. Each voter is to cast his vote for one of the candidates, with a right to *indicate his second and third choices* for other candidates of his party if his original candidate is already found to secure the required quota of votes. After the votes are cast by all the electors, the total number of votes thus cast has to be divided by the number of seats

to be filled up. The quotient will give the required quota for election of each candidate.

After the required quota is estimated, the ballot papers are to be counted with reference to first choice. As soon as a candidate secures the adequate number of votes (i.e., *the quotient*) he is declared elected and no more votes are counted for him. The surplus votes, if there be any, above the required quota are then to be taken away and added to the votes of candidates indicated by the voters as their second choice, and so on until the proper quota of representatives are elected.

(b) Representation of Interests and Communities.

A modified form of minority representation is found in the attempt, formerly common, to represent separately the important classes, professions, trades, industry, or other interests within the state. In our country the various chambers of commerce, port trusts, planters associations, trade associations, universities, etc., have got special representations in the legislatures, both central and local. The system is not very *popular* to-day. In England the only form of such representation obtains in the case of the universities. Where representation of special interests prevails, voters of special constituencies have an additional vote.

Communal Representation.

This is also a modified form of minority representation. *But the system is defective for the following reasons:—*

(a) A legislature based on the representation of several communities, say, Hindu, Mahomedan, Christian, Parsi, Sikh and others, very soon *loses its character and degenerates into a debating society* (described as a "ZOO" by the Hon. Mr. Tambe) as each member solicits and fights for his own class or community and deliberately *connives at the sacrifice of the general welfare of the whole people or nation* to further their own or community's so-called interests.

(b) It *raises barriers between different communities* and constantly *brings them into conflict* on frivolous pretexts and chance misrepresentations, and *fosters a spirit of class antagonism between them*. The frequency of Hindu-Moslem riots has been attributed to the system of communal representation in India through separate electorates.

(c) The system *does not favour the recruitment of better class of representatives*. The composition of the legislatures in India, both central and local, exemplify this unpalatable truth.

THE EVILS SUMMED UP.—The system, in short, breeds suspicion and hostility between communities, denationalizes the people, removes competition and destroys the spirit of emulation and substitutes the cult of self-help by a gospel of mendicancy. It is both anti-national and anti-democratic.

Arguments in Favour.

The only effective argument in favour of communal representation is that it enables the minority to be represented in the legislature *in proportion to their number*. Without such a system of representation some small but influential communities having a very great stake in the country may altogether go without representation. Moreover, the legislature which taxes people must *on grounds of justice and fair play* should be represented by all classes, communities, interests and shades of political opinion.

Communal Representation in India.

In India the various communities have mainly been divided into Mahomedans and Non-Mahomedans (the latter including Sikhs, Parsis, Christians, Hindus, etc.) besides the Europeans. Other special constituencies, like trade, industry, plantations, port trusts, etc., have each special representation. Not only each community is given a definite number of reserved seats in the legislature, but each community elects

its own representatives through a *separate electorate*, the voters being entirely composed of the respective members of the community.

Separate Electorates.

Communal representation with reservation of seats is bad but representation through separate electorate is worse. At present the system of separate electorate obtains in India. It was introduced during the Viceroyalty of Lord Minto on the solicitations of the Muslim community headed by Aga Khan. Under the system an electoral constituency is composed of voters belonging to the same community. It puts communities in water-tight hostile compartments, each candidate being elected by the voters of his community. The candidates lose national character. The greater traducer of the sister communities is acclaimed as the saviour of his community by his bigoted and ignorant followers. So arises the communal cry, "the cow in danger" or "the music before mosque." Nobody thinks of education or sanitation. In the legislature there is constant wrangling for loaves and fishes by the leaders of rival communities. The minority is permanently put under a hostile majority. The latter can indefinitely tyrannise over the former. *Under a system of communal representation, joint electorate can be the only redeeming feature.*

On the other hand, the upholders of separate electorates hold that under a joint electorate a community cannot send its real representatives. Some even propose to qualify the joint electorate by stipulating that not only there should be reservation of seats, but a candidate must secure a *certain percentage of votes* from the members of his own community before he may be declared elected. But do such reservations differentiate the system from communal representation, pure and simple?

Joint vs. Separate Electorates.

The present idea is to have a *joint* electorate based on adult suffrage, the voters being composed of the members of all communities, while each community is to retain a definite number of reserved seats in the legislature on a population basis. The proposal is unanimously regarded as one which will favour the cause of Indian nationalism and will bring the communities closer.

But the most ideal form of representation should be on a non-communal basis. The problem to-day is *social and economic* rather than being communal. *The poor* and the *ignorant* comprise almost the whole population. So the problem to-day is the reshaping of the social and economic order rather than the securing of so-called communal interest.

The League of Nations and Protection to Minorities.

The League has laid down the following principles safeguarding the interests of the minorities—That the Minorities should have the right to the *protection of their own religion, language and culture, the equality before law* and the right to *political equality*. They should also have the *right to an equitable share in all public grants for educational, religious and charitable purposes*.

Control of the Electorate.

It is not the size of the electorate but its genuine control over the government that determines the supreme test of democracy. The electorate may exercise *direct* or *indirect* control over the government.

The indirect control of the electorate may be exercised by an alert and vigilant public opinion, and the direct control may be exercised through (a) frequent elections, (b) the Recall, (c) the Referendum and (d) the Initiative. (For details, read Chap. XIX, *Organization of Public Opinion*).

Questions:

1. State the arguments for and against women franchise. (U. P. Inter Board, 1930).
2. 'Universal teaching must precede universal enfranchisement'. Discuss. (Cal. 1936).
3. What do you consider to be the true basis of franchise? Consider the case of female franchise in India. (Cal. 1926).
4. Define 'Democracy'. Describe briefly the process of law-making in a representative democracy. (Cal. 1927).

5. Write notes on :—(a) Vote by ballot; (b) Communal representation. (Cal. 1927).

6. Consider carefully the arguments for and against communal representation in India. (Cal. 1929).

7. Discuss some proposed systems of representation according to which the interests of the minority may be safeguarded.

8. Write a short essay on the manhood suffrage, as applicable to India. (Cal. 1933).

9. Is education the sole qualification for citizenship or are other qualifications necessary? If so, what are they? (Cal. 1930).

10. Discuss the merits and demerits of direct and indirect elections respectively. (Cal. 1936).

11. Distinguish between direct and indirect election. What are their merits and demerits. (Cal. 1939).

12. What, in your opinion, should be the qualification for the exercise of Franchise? Do you advocate universal suffrage? (Cal. 1939).

13. Describe the methods that have been suggested for the representation of minorities in legislatures. (Cal. 1939).

14. "The introduction of separate electorate is impeding the growth of Indian nationalism." Do you accept this proposition? Give reasons for your answer. (Cal. 1941).

CHAPTER XIII

SEPARATION OF GOVERNMENTAL POWERS.

I. The Theory: Its meaning

In a previous chapter we have seen that a government is composed of three powers or departments—legislative, executive and judiciary. Political philosophers state that when any two of these powers pass into the same hands, there is loss of individual liberty, and tyranny inevitably becomes the outcome. So the three powers should be separated from one another.

Montesquieu is the great exponent of the theory of separation of powers. "If the legislative (law making) and *executive powers*", says he, "*are united in the same person or body of persons, there is no liberty*, because of the danger that the same monarch or the same senate may make tyrannical laws and execute them tyrannically. Nor again, there is any liberty if *the judiciary is not separated from the legislative and the executive*. If the *judiciary were joined with the legislative*, the life and liberty of the subject would be exposed to arbitrary control: for the judge would then be the legislator. If *the judiciary were joined with the executive*, the judge would have then the force of an oppressor."

For example, if the Governor of Bengal who is the executive head manages by some dubious means or through his executive authority to command a majority in the provincial (Bengal) legislative council, then liberty of individual subjects or citizens would be jeopardised as he would be in a position to pass with the help of the legislature any law he likes and thus clothe himself with the most arbitrary power. Again, if the judiciary, *i.e.*, the High Court of

Calcutta is controlled by the executive, then human heads would stand on human shoulders so long as the executive would wish them to be there. On the other hand, if the High Court can control the Government House, it cannot but oppress the people. Again, if the legislature controls the judiciary, or the judiciary controls the executive, then the liberty of the people would be jeopardised; in the first case the judges would pander to the legislature and abandon their function, in the second case the judges would be oppressors. So it is proposed,—let the three powers be separated from one another and let each stand guard over the other.

When on the eve of the *American War of Independence* the delegates of the various states of America met to frame and draw a federal constitution, they attached great importance to this theory as a safeguard against encroachment upon individual liberty, and followed a policy of rigid separation of the three departments of the American government.

II. Criticism of the Theory

A rigid separation of the three departments is not, however, possible and at the same time not desirable for the following reasons:—

(1) *Absolute separation between the different departments of the government is impossible.*—Though the framers of the American constitution theoretically attempted a rigid separation, in practice, however, they found it impossible.

(2) *Absolute separation is not only impracticable but also undesirable and harmful.*—If the three departments be independent of one another and be in a position to thwart the actions of others, frequent deadlocks would be inevitable.

(3) *The theory may even be harmful.*—In the eighteenth century too much enthusiasm for this theory led to the adoption of the system of *elected judges* in some of the American Commonwealths. Judges who get office by election are generally weak, incompetent and partisan.

(4) *Liberty does not depend on the separation of powers alone.*—Had it been so there would have been no liberty in England. Liberty rests on other foundations.

In none of the states to-day there is any complete separation of powers. Though both England and America are the two most progressive democracies, it is queer that in one, the former, the separation is the least marked, while in another, the latter, theoretically, the separation is the most complete. For all practical purposes, however, the connection between the different departments of the government has been made intimate by artificial ways, *e.g.*, by the organization of parties, etc.

III. Relation of the Judiciary to the Executive

The Judiciary is almost everywhere appointed by the executive. In order to limit the latter's further interferences, Judges once appointed are allowed to hold office *so long as they are of good behaviour.*

In some countries executive officers are not tried by ordinary courts according to ordinary law, but by administrative courts, i.e., by courts formed of departmental heads of officers against whom charges have been brought. Naturally in such cases of usurpation of judicial powers by the executive, the impartiality of law, as well as individual liberty are seriously affected.

The executive also shares in judicial powers, such as the right of pardon. But the exercise of the right does not cripple in any way judicial authority.

In practice, however, the two departments could not be separated beyond a certain point, though separation is desirable.

There are, however, equal dangers when the judiciary is either a willing tool in the hands of the executive, or on the other hand, bullies the executive and forces upon it novel interpretations of the law.

Finally, *when the two organs are united together there is every danger of tyranny.* In India, the executive and judicial powers are united in the same hands. The District Magistrate who is the Chief

Executive Officer in the district, does also act in the capacity of the chief judicial officer for criminal cases in the district. This practice leads to miscarriage of justice.

IV. Relation of the Executive to the Legislature

In all countries with *responsible form of government*, i.e., in countries where the executive holds office so long as it can command a majority in the legislature, *e.g.*, in England, France, Italy and others, the executive and legislative powers are necessarily in the same hands. In the case of England, particularly, we find the Parliament to relax its hold and leave the executive with considerable power.

On the other hand, in *non-responsible forms of government* the executive, when once elected, does not require the confidence of the legislature, as is the case with the United States.

In the case of India, however, the executive exercises unbounded control over the legislature.

Separation of Powers in India.

In the case of India, we have already seen, the executive is the most pampered. It controls, regulates, and overrides the legislature and all law-making bodies, and exercises and usurps a good deal of judicial powers. From the time of its inception the Indian National Congress is urging for the separation of the judiciary from the executive but to no purpose. Further, the dictum that the weapon of veto becomes blunt by use is not heeded at all by the executive in India where certification and veto power are resorted to more than often and thus the legitimate function of the legislature is usurped by the executive. The instrument of *ordinance* enables the executive to dispense frequently with the judicial organ. We have already noted how a District Magistrate, who is an executive officer, in a sense is both a prosecutor and a persecutor of alleged criminals.

Questions.

1. Indicate the advantages of separation of powers and illustrate them from Indian conditions. (Cal. 1926).
2. Should the executive and the judicial functions of government be exercised by separate sets of officials? (U. P. Inter. Board, 1928).
3. What principles should regulate the relations of the executive to the legislature? What should be the relations of the Judiciary with the Executive and the Legislature? (U. P. Inter. Board, 1929).
4. 'The business of a modern government divides itself in three main parts—legislative, judicial, and *executive*.'—Illustrate. (Cal. 1935).
5. How are the powers of the modern state distributed? (Cal. 1938).
6. What are the principal organs of government, and what are their respective functions? (Cal. 1937).

CHAPTER XIV

LOCAL SELF-GOVERNMENT

Definition of Local Self-Government.

As the size of the modern state is large and it cannot successfully manage the day-to-day affairs of different localities, so the territory of a state is divided into smaller areas, and self-governing or representative institutions are installed in every such local areas to manage or administer them properly. *This is known as local self-government.*

Grades of Local Division.

In India four grades of local divisions are found:—

(a) *The Provinces*, e.g., Bengal, Madras, Bombay, etc.
(b) *The Divisions* into which a province is divided, e.g., the Presidency, Burdwan and other divisions; (c) *The Districts* into which a division is sub-divided, e.g., Howrah, Hooghly and others; and (d) finally, *sub-divisions* into which a district is sub-divided. For each sub-division there are Union Boards, Chaukidari Panchayats, etc. Such is the organization of local self-government in rural areas. In urban areas there are municipalities for local self-government. The biggest unit of local self-government in the rural areas in India is the District or Taluq Board.

*The first three grades of local divisions are for political and general administrative purposes, while the fourth grade is smaller enough in size to admit of local self-government.**

Centralized and Decentralized Systems.

Centralized system of local government is that in which the local self-governing bodies seem to act as agents of the

* For details of Local Self-Government in India and in Bengal, read Chapters XXI and XXII in Indian Administration.

central government enjoying little freedom of action. This system obtains notably in France. While the decentralized system is one in which the local bodies are autonomous and enjoy a wide degree of freedom. This system obtains in England, India, the United States and Switzerland.

Principles of Local Organization.

In establishing local governments the following points are observed:—

(1) *Natural Boundaries*.—Such as streams, canals, embankments, fields, hillocks, etc., that divide one local area from another, *density of population* that differentiates rural from urban areas, and *historical antecedents* which separate one tract of territory from another, are taken into account.

(2) *Economic Consideration*.—It is equitable that those who profit by public expenditure should also bear the burden of it, and also should exercise practical control over it.

Merits of Local Self-Government: Chief training ground.

(1) What the state cannot do *efficiently*, local administration does much better.

(2) It puts the citizen in touch with public affairs, gives him a civic training, quickens his interest in public affairs and serves as the *best school for democracy*. *It has a great educative value*. “The best school of democracies and the best guarantee for its success is the practice of local self-government.” (Bryce). “Local government is education in perhaps a higher degree than any other part of government.”—*Laski*.

(3) It encourages *a spirit of self-help, trust and responsibility*.

((4) It *fosters public-spirit* and a *spirit of service and sacrifice*. It teaches men to work for others and also to work with others.

(5) It leads to *co-operation* and *fosters peace and goodwill*. It kills indolence and selfishness.

"Local assemblies of citizens constitute the strength of free nations. Town meetings are to liberty what primary schools are to science; they bring it within the people's reach; they teach men how to use and how to enjoy it. A nation may establish a system of free government but without the spirit of municipal institutions it cannot have the spirit of liberty."—Quoted from Tocqueville by Willoughby and Rogers.

Evils of Local Self-Government.

It may lead to a *separatist spirit, sectionalism and even to communism*. Interests of the people which should be uniform through the state should be left in the hands of the central government. *If any independent power in such matters be given to local governments then it might endanger the welfare and even the existence of the state*. When local areas are small, *local self-government may be dominated by a few for their own benefit*. It may also *create a narrow outlook for the average citizen*.

Guarantees of Local Self-Government.

The chief guarantees of local self-governments is *publicity of administration, educated public opinion, and non-interference by the state*.

State interference is only remotely justifiable in cases of gross mismanagement and flagrant abuse of power, and of oppression upon the minority community. Where interferences are frequent, self-government weakens and degenerates into an inert mass, having no life and depends upon mere sycophancy.

Till very lately the best conceivable form of local self-government prevailed in India in the form of *Village Communities*. Each village was by itself as if a separate republic. This indigenous system, however, broke down with the advent of the British and on the introduction of new administrative and judicial systems. For the functions and organization of the rural and urban self-governing bodies

in India, read Indian Administration, Chaps. XII and XIII; for the causes of comparative inefficiency, failure and success, read Chap. XII.

Questions.

1. Estimate the value of local institutions as agencies for the training of the people in the art of self-government. Illustrate your answer from the working of those institutions in Bengal. (Cal. 1934).
2. 'The first lessons of self-government should be learnt in local institutions.' Explain and illustrate this statement with reference to the working of local bodies in Bengal. (Cal. 1936).

CHAPTER XV

FUNCTIONS OF GOVERNMENT

I. Functions of Government

Before we proceed to discuss the province and functions of government, we must have some idea of the *end* and *function* of the state.

End of the State.

The end of the state may be summarized under three groups: (1) To promote *the welfare of the individual*; (2) *the welfare of the nation*; and (3) *the civilization of mankind*.

Functions of the State.

Charity begins at home. To bring about the welfare of the individual and the nation, the state has to undertake certain functions or activities. But naturally those functions or activities may not be of the same importance.

(1) Essential functions.

Some functions are said to be *essential*, i.e., absolutely necessary, for the existence of the state. Such functions include the maintenance of *external security and internal order*, such as the security from external aggressions or encroachments upon international rights, and the protection of life, liberty and property of the people, the maintenance of relations between the state and its citizens, and between citizens and citizens.

(2) Natural but unnecessary (ministrant) functions.

In addition, however, there are other functions which may be *natural but unnecessary*, that is to say, *they are*

activities which the state may leave unperformed without being guilty of neglecting a primary duty. Such activities are proposed to be undertaken by the State only because *they cannot properly be performed by private individuals, e.g.,* the construction of public roads, bridges, canals, light-houses, etc., and the provision of elementary education, postal service, etc. The foregoing activities may be *natural* with the state but *unnecessary* in the sense that their non-performance does not destroy the state.*

(3) Optional functions.

In addition to the two forms of functions enumerated above, there are certain other activities which are largely being undertaken by the state. They are classified as *optional functions*. They are such as were expected to promote the general welfare, morally, intellectually and economically. They include such activities as the establishment of railways, telegraph and telephone, water supply, hospitals, museums, workingmen's dwelling houses, etc.

* SOME NON-ESSENTIAL FUNCTIONS.—(1) *Trade and industry.* The State is increasingly regulating to-day trades and industries for national welfare, such as the levying of tariffs (for protective purpose), the passing of factory acts, coinage of money, etc. (2) *Education.* In all progressive states the system of compulsory education prevails. The state also provides most effectively for college, University and research education. (3) *Care of the poor, aged and the infirm.* Poor relief, unemployment doles, old age pensions, work-houses, famine relief, etc., are now provided by every civilized State. (4) *Public utility services.* Almost all of the public utility services have to-day been made over to private enterprize by the state, *e.g.,* railways, tramways, telephones, posts and telegraphs, the supply of water, gas, electricity, etc. (5) *Public health, Sanitation and Medical Relief.* Hospitals, dispensaries, medical schools and colleges, ambulance, drainage, etc., to-day are being provided to a large extent by the State. But this seems to be an optional function.

II. Province of Government: Two theories

In the previous section we have enumerated the three forms of functions of the state. These functions are exercised through the instrument of government. But as to what should be the *province of government*, that is to say, *which of the functions the state is to perform* has become an apple of discord among political thinkers.

They sharply differ as to what should be the real province of government. There is a school of thought known as *individualism* which strongly holds the view that the sole *province of government* should be restricted to the performance of essential functions. While another school of thought known as *socialism* holds that the scope of governmental activities or province of government does include not only the performance of essential functions of the state but also other non-essential functions. We propose to discuss here in detail the two theories as outlining the scope or province of government.*

(1) Individualistic or the Laissez faire ('let alone') theory.

The individualists hold that the province of government is the perservation of life, liberty and property of the people. The state is a necessity to-day because men are ignorant

* There is a third theory known as the Anarchistic theory. It holds that unrestricted freedom leads to the full and harmonious freedom of the individual as well as of the society. It considers the state to be wholly an unnecessary evil under which liberty can never thrive and prosper. It is an extreme form of the individualistic theory but while the latter advocates a minimum of government, the former decries government altogether. Anarchism means 'no rule,' a state of things in which everyman is to be ruled by himself and by associations which, however, can never exercise any physical force or compulsion of any kind.

and selfish. As crimes would disappear the necessity of the state would also cease to exist. So its functions should be limited and its interference should be reduced to a minimum. *It is to restrain, not to direct and promote.*

The individualists condemn all legislations that impose restrictions on trade, industry, social habits, etc., and consider all those ministrant activities of the government, such as the opening of schools and colleges, hospitals, museums, etc., as encroachments on individual liberty. "The function of the state *should be nothing more than a police organization* to enforce contracts, keep the peace, and punish crime; and when this is done its functions are exhausted."

They argue that self-interest is a universal principle and every man knows his intelligent self-interest and follows it if unrestricted. In the absence of external restraint free competition operates and free competition always develops the highest human possibilities.

Arguments in favour of individualism.

It is argued that the theory may be defended on (a) ethical, (b) economic and (c) scientific grounds.

(1) THE ETHICAL BASIS.—The philosophers of the natural rights school strongly hold that individuals can only fully realize their existence if they are "*let alone*". Free competition develops the highest possibilities in man, government interference cramps it. This ethical basis of individualism has been termed by many writers as the *doctrine of justice*.

CRITICISM.—This extreme view is untenable. Absolute non-interference of the state in all matters is impossible. The state, it is admitted, must protect the life, liberty and property of the individual and must take care of the poor, provide for their education, etc.

(2) ECONOMIC BASIS.—The factors or agents of production, for their greater efficiency, must be left to them-

selves. Through free competition every agent would be able to reap the richest harvest. Whenever the state interfered with trade and industry, the latter suffered considerably. The state is not infallible. It lacks inventive and initiative power than the individual and cannot create but can only criticize. Further, the state is already over-burdened with a multiplicity of functions.

(3) THE SCIENTIFIC BASIS.—The theory appeals to biology and to its doctrine 'the survival of the fittest'. It is argued that the elimination and weeding out of the weak would be of the highest good to society.

Criticism of the Individualistic theory.

The theory has evolved as the result of the reaction that followed the extreme amount of state interference or over-government which obtained towards the latter part of the eighteenth century in Europe.

Propositions criticised.

IS THE STATE AN EVIL.—It is an evil in as much as civilization has in the past been greatly promoted by state activities. *The function of the state is not merely to restrain*, because with the progress of civilization, social and individual interdependence and harmony and co-operation between men and nations would increase and hence the role of the state that increase correspondingly in order to satisfy the common wants of the individual and the group.

STATE INTERFERENCE DOES NOT ALWAYS INVOLVE THE CURTAILMENT OF INDIVIDUAL FREEDOM.—On the other hand, state interference in the shape of factory legislation, poor laws, mine acts, etc., instead of curtailing individual liberty has rather helped the extension of individual liberty by protecting the weak against the strong. *Maximum of government does not necessarily mean minimum of freedom.*

THE INDIVIDUAL IS NOT ALWAYS THE BEST JUDGE OF HIS OWN INTEREST.—The Chinese habit of opium-smoking had to be suppressed by state legislation.

THERE IS A DIFFERENCE BETWEEN STATE CONTROL AND STATE INTERFERENCE.—Regulation of private enterprise with a view to its

better fulfilment, *e.g.*, the requirement by the state of adequate qualifications of a medical practitioner, a pilot and an engineer, regulation of adult male and female and child labour, etc., are instances of benevolent regulation. The term interference smacks of ideas which are immoral, irreligious or dangerous and destructive to society.

THE PROPOSITION THAT THE FUNCTION OF THE STATE SHOULD BE NEGATIVE RATHER THAN POSITIVE IS UNTENABLE.—It is absurd to hold that the function of the state is to redress and not to prevent. Would the state wait to see a dangerous maniac commit homicide and then punish him, or take precautionary measures in the shape of putting him under restraint beforehand? The answer is too clear.

THE INDIVIDUALISTS FAIL TO DISTINGUISH BETWEEN EXECUTIVE AND LEGISLATIVE INTERFERENCE.—Formerly, state interference was resented because it came from the executive. But when democracy made the popular legislature supreme, the objection did necessarily vanish.

CONCLUSION.—We must, however, admit that there is much truth in the individualistic or *Laissez Faire Theory*. That the individual knows what would conduce to his greatest happiness, and that unfettered by regulation his inventive and imitative genius would shine to its utmost brilliance are true up to a great extent and in the absence of certain special circumstances.

(2) The Socialistic Theory explained.

Socialism is a protest against individualism. While the individualists advocate for a minimum of government the socialists fight for a maximum. The socialists urge that the individualistic system of industry that obtains to-day is wasteful, ineffective and inequitable. They strongly advocate the substitution of government management for private management of productive industries. They propose to extend the functions of government to the whole domain of economic operations. The state is to manage all the railroads, the factories, the mines and the farms. The state is also to guarantee work to everybody. In short, the state is to supply all wants, economic, social and intellectual. *But such a system is inherently impossible.*

Arguments for Socialism.

The present economic system makes the rich richer and the poor poorer. It has led to the inequalities of opportunities and of wealth and has helped the capitalists class to exploit the poor. The system thus leads to grave social evils. Further, the present *competitive system is wasteful* in as much as it leads to unnecessary duplication of capital and cost, as for example, when two parallel railway lines compete with each other and spend large sums on advertisements, etc., to win customers. The *principles of right and justice*, again, dictate that what nature has given to man should be equally distributed among them. Socialistic ideas *have spread democracy*; have helped the *moral uplift of the masses*, and *have brought labour problems to the forefront*.

Arguments against Socialism.

It is impracticable. Individual initiative would disappear with the disappearance of individual gain. Without appropriation of surplus income, saving cannot take place and without saving, capital would not grow and *in the absence of capital, production would suffer*. The state cannot also efficiently manage industries. "In the absence of all self-interest and incentive, individuals would have to be disciplined and driven to the discharge of their duties, and in place of freedom, we should according to some writers have virtual slavery."

The Real Province of Government.

Neither individualism nor socialism represents modern ideas about the province of government.

None of them is absolutely good or absolutely bad. We cannot fix a line within which individual initiative should only be allowed to operate, nor can fix a limit rigidly beyond which the sphere of state action is not to extend. There

are some cases where no cogent reason can be attributed to legitimize state action other than general convenience and expediency. Larger individual liberty can sometimes be secured by wisely-directed state aid and guidance in the interest of social efficiency. Even the socialists agree that the state has a higher mission than mere police duty.

In justification of judicious state interference it is said that "the same reason which justified the state yesterday in abolishing slavery, justifies it to-day in abolishing ignorance, and will justify it to-morrow in abolishing other degrading conditions of life." The state should encourage art, literature and science and must be an instrument in economic and social progress. The state is justified in adopting *prohibition*, as it has done to suppress opium consumption in China and the liquor traffic in America, in adopting *regulation*, such as by Factory Acts, etc., and *ownership*, such as the *ownership* of railways in India and Germany, and also by museums, universities, hospitals, and roads and canals in all states, *to further the cause of social efficiency.*

But with the above reservations, we must not forget that *individual liberty should be the rule and state interference the exception.* The state should not ordinarily undertake to do for society what individuals by themselves can do as well or even better.

But the modern tendency is towards more government—

First, because the state interference to-day is *legislative* rather than of an *executive* character. The state interference comes through the injunctions of the legislature which is composed of the representatives of the people.

Secondly, it is understood to-day that the end of the human existence is to attain a fuller and better life and not merely to enjoy individual liberty. If state activities can advance it better where then is the objection?

III. What the Government is actually doing for us

From what has been said as to the functions of government and the two principles, individualism and socialism, which determine the scope of governmental activities, we have found that governments are taking upon themselves more and more functions than formerly.* Let us enumerate here some of them :—

(1) PROTECTION OF LIFE.—This is one of the most important and essential functions for which originally government was established. Every government has a machinery through which it punishes crimes against persons. The efficiency of government is measured by the degree of success with which it discharges this duty.

(2) PROTECTION OF PROPERTY.—Everywhere the law recognizes the right of private property against robbery, theft and unlawful destruction. But limitations are also put upon ownership of certain forms of property and their use on grounds of public good, *e.g.*, on ownership of slaves, of gambling saloons, careless use of firearms, etc. The government protect property *not only by restraining others from interfering with the enjoyment of one's property, but in certain cases follow the policy of direct action, e.g.*, by providing for fire brigades, etc.

(3) PROTECTION OF LIBERTY.—The sovereign power in the state protects our liberty from being encroached upon not only by private individuals and associations, but also by itself. The relief or protection comes through recourse to law courts and in the shape of punishments and damages.

(4) PROTECTION AGAINST ACCIDENT.—To protect us against accidents the government makes rules and regulations and forces people and corporations to conform to them, *e.g.*, it fixes a speed limit for railways, motors and busses, etc., lays down conditions for steamship companies to carry lifeboats and belts for its passengers,

*Mass education, economic welfare, transport, communications, public health, social reform, order, security, justice, international co-operation, defence—these are the main items of state action in modern times.—*Dr. Beni Prasad.*

and enjoins upon owners of factories and mines to take a number of precautions.

(5) ADMINISTRATION OF JUSTICE.—Instead of resorting to physical violence, we refer all our disputes to law courts which dispense justice to the rich and poor alike according to laws and principles of equity.

The five above functions are *primary* or *essential* on the part of every government. The functions mentioned under the next three headings are *natural but unnecessary* functions and the rest may be characterized as optional functions, failure of the performance of which would not frustrate the purpose of a government.

(6) PROMOTION OF EDUCATION.—Education is necessary for economic as well as for political efficiency. Without education democracy becomes a source of danger and a positive evil. So to-day every civilized government undertakes to impart a minimum amount of compulsory education to its citizens. In addition, everywhere it provides for higher (university) and vocational and technical education. In some countries free carriage to schools, free lunches and free distribution of text-books are provided for the children of poor parents. Schools and colleges, museums, libraries, art galleries, etc., are run by government in every country to educate the people.

(7) PROTECTION OF PUBLIC HEALTH.—By regulating sanitation, providing for supply of drinking water, drainage, housing, etc., and by prohibiting the sale of adulterated food, by segregating people suffering from contagious and epidemic diseases, by making vaccination compulsory, etc., government tries to promote public health.

(8) CARE OF THE POOR.—To-day the government does not leave the poor to their fate, or to the care of churches and charitable persons. Poor houses, charitable hospitals and similar institutions are now maintained by government for the benefit of the poor.

(9) OTHER SERVICES.—Over and above the services mentioned before every government renders a number of services which it would have been impossible for private enterprise to render.

While central governments operate such services as the post offices, telegraphs, and telephones, or own and manage railways, irrigation works, roads and bridges, the local governments operate

to-day an increasing number of services like electric light, gas and water plants, lodging houses and slaughter houses, museums, galleries, zoological and botanical gardens, experimental farms and loan agencies. In short, governments are operating services which perhaps in many a case might have been managed fairly well by private enterprise but the amount of public utilities involved in such services have led to their transfer to the hands of the government. Matters of national importance are generally being left in the hands of the *central government*, and of local interest in the hands of the *local* governments.

Questions.

1. Enunciate some of the functions of a modern government (C. U. 1928).

2. Describe the functions of the State. 'It is considered to be the duty of the State to concern itself with the well-being of the entire body of its citizens in every sphere of their activity'. Is this view sound? (Cal. 1938).

CHAPTER XVI

FORMS OF STATES AND GOVERNMENTS.

I. Forms of States

Classification of States and Governments.

We have already remarked that the state and the government are not identical. So when we speak of states we must think of it as something distinct from governments. A Government is merely an instrument or mechanism through which the will of the state is formulated and expressed. So we need classify states in quite a distinct way from the classification of governments. Again, it should be so because *the forms of states are not identical with the forms of governments*. For example, the form of a state may be a democracy but the form of government may be a mixture of aristocracy and democracy. In England the form of the state is a democracy as the sovereign power is vested in the mass of the population, but the form of government is an admixture of monarchy (the King being the nominal head), aristocracy (the House of Lords), and democracy (the House of Commons).

*Thus we see governments may be mixed, while states are always pure.** They are either monarchies, aristocracies, or democracies. But governments may be of various forms,—unitary, federal, Parliamentary, Non-Parliamentary, etc.

*Before we enter into the subject of classification of Governments, we have to bear in mind the distinction between the state and the government. Strictly speaking, states do not admit of classification because so far as their essential features are concerned all states are alike.

Aristotle's Classification of States.

Aristotle attempted a precise and scientific classification of states. He classified states according to two principles :—

(a) *According to the number of persons in whom the sovereign power is vested.* Where the sovereign power is vested in a single person it is a monarchy, where in the hands of a few, it is an aristocracy, where in the general body of citizens, it is a polity.

(b) *According to the end to which the conduct of government is directed.* The states which pursue the good life of its citizens are *normal* and those which do not are *perverted*.

Aristotle's Classification.

<i>Sovereignty of</i>	<i>Normal form</i>	<i>Perverted form</i>
1. The one—	Monarchy	Tyranny.
2. The few—	Aristocracy	Oligarchy.
3. The many—	Polity	Democracy.

Since Aristotle, many writers have attempted to classify states but could not improve upon him.

II. Forms of Government

The old writers usually classify governments, as Monarchy, Aristocracy and Democracy.

1. Monarchy.

It is a form of government in which the supreme power of the state is concentrated, more or less, in one individual. Such a monarchy is an *absolute monarchy*. But in modern times absolute monarchy has practically ceased to exist.

(a) Absolute Monarchy.

Absolutism cannot endure for ever. It gave opportunity for oppression and tyranny both by rulers and their favourites and thus paved the way for its own destruction.

The Bourbons of France, the Roumanoffs of Russia, the Hapsburgs of Austria, and the Hohenzollerns of Germany have all lost their thrones and Crowns. In England, the symbol of a monarchic system still obtains only because the monarchy has become *limited or constitutional*.

The Chief Merits of an absolute monarchy.—They consist of “strength, vigour, energy of action, unity of counsel, promptness of decision and simplicity of organization.” If a good despot could be secured, despotic monarchy would be the best form of government. *But the demerit of the system* is that a despot often rules for his own benefit and not for the interests of his people.

(b) **Constitutional Monarchy.**

A constitutional or limited monarchy implies a supreme legal power limited by the rights of the subjects as embodied in the constitution. It implies such ideas as, “the people wills and the King executes,” “the constitutional monarch reigns but does not govern.” The system provides that the bad or incompetent king shall do as little harm as possible while the good king should do as much for his subjects as possible.

The English monarch is a constitutional monarch. Monarchies again are classified as *hereditary* or *elective*, or a combination of both. At present the hereditary principle obtains everywhere.

The Merits of Limited Monarchy.—It lies in the fact that hereditary succession,—modern monarchies being everywhere hereditary, helps to promote continuity of executive policy and is free from the political unrest and upheavals that follow on occasions of popular or elective choice of the executive head of a state. But hereditary succession can never ensure succession of competent rulers and we have to depend entirely upon the accident of birth. “France, for

example, was governed for more than five hundred years by kings who had not reached the age of twenty-five years at the time of their accession to the throne, and for nearly one hundred years by kings who had not attained the age of twenty-one."

2. Aristocracy.

It implies the rule of a *few* for the benefit of the whole, a few who are endowed with the virtues of wealth, intellect and political genius. The principles of aristocracy are always elevated. Its perverted form, Oligarchy, *i.e.*, the rule of the few for their own benefit, has attached an evil odour to the term.

True aristocracy never conflicts with democracy.

Political consciousness generally grows at first in the minds of a few and gradually such people gain political ascendancy and become known as the aristocracy. Later on, political consciousness spreads among the mass and aristocracy ripens into democracy. Democracy is nothing but true aristocracy on a large scale. *Thus the contrast between democracy and aristocracy is more of outward form and of emphasis rather than of substantial reality.*

Strength and Weakness.

Its chief merit is that it *emphasizes quality rather than quantity*. "It assumes that some are better fitted to govern than others, attaches great weight to experience and training as political virtues, and seeks to reward special talent and attracts it into the public service. It favours moderation and a policy of conservatism."

3. Democracy.

Democracy is a government of *the people, by the people and for the people*. In democracy political power

rests with the general body of citizens and the will of the majority shall be obeyed.*

Democracies may be either (a) *pure or direct*, and (b) *indirect or representative*.

(a) **Pure or Direct Democracy.**

Direct democracy obtained in the small City States of Greece and in early Rome. In it all the citizens (who were very few in number) took active part (in the shape of a general assembly of the citizens) in the administration of the state. In modern times direct democracy has become impossible as the size of the states has become enormous and the right of citizenship has been widely extended. So indirect or representative democracy, *i.e.*, the rule of the citizens through their chosen representatives, has become the outcome.

Direct democracy had the *merit* of educating and elevating the political and civic consciousness of the citizens. It allowed them to take an intelligent interest and to take an active part in the political life of the state. But this merit existed only because the state was very small and the right of citizenship was limited to a few who had education, wealth and leisure. Direct democracy in a modern state would defeat its own purpose and would be a positive evil in as much as it could not but degenerate into a mob rule.

(b) **Indirect or Representative Democracy.**

The *modern or indirect form of representative democracy* is the rule to-day. A representative legislature has

**Where democracy is suitable.*—Democracy is suited to a state of Society in which the people want to exercise power, are capable of sinking minor differences and co-operating for the general good, and have acquired knowledge and judgment enough to elect suitable representatives and judges as to the propriety of general lines of policy.—*Dr. Beni Prasad.*

taken the place of the old general assembly of all the citizens. It first originated in England and later on in the United States of America and has spread to-day to the whole of Europe, America and even to some parts of the sleepy East.

Merits and demerits of Popular Government.

Merits of Democracy.*

(1) It is the only form of Government in which *the responsibility of the government to the governed can be effectively enforced.*

(2) It *elevates the masses of the people* and strengthens the spirit of *patriotism and love of country* by allowing the citizens a share in the administration of the state and making them feel that the government is their own.

(3) As it rests upon the consent of the governed, *it is less prone to fall a prey to revolutionary disturbances.*

(4) It serves as a sort of training school for active, healthy and intelligent citizenship.

(5) *It is an ideal form of government* as it recognizes no privileged classes and proclaims the equality of men.

(6) *It is a progressive and educative force.* It not only elevates the character and political intelligence of the masses, but enables people to adapt themselves to changing needs and circumstances.

*The great advantage which it possesses is that it can draw on *all the talent* in the community. It has a great *educational value*. It serves to awaken the popular mind and to favour the emergence of ideas. Equally important is the *moral value* of democracy. No other form of government so clearly acknowledges the principle of the infinite worth of individuality. *It is more than a form of government.* It tends to multiply contacts and opportunities of co-operation in the community and aims at *maximising the welfare of all.*—Dr. Beni Prasad.

Demerits of Democracy.

(1) It *emphasizes quantity rather than quality*. Only a small percentage of the huge population is really fit to rule.

(2) It *does not ensure better government* as it is a government by the poorest, the most ignorant, and the most incapable who form the majority of the population.

(3) It *does not encourage the higher form of intellectual life*, such as literature, art and science.

(4) There is *no real connection between democracy and liberty*. A powerful leader may often tyrannize over the majority and suppress public opinion altogether, as have been the cases under the dictatorships of Hitler in Germany and Mussolini in Italy.

(5) Democracy is not suitable for ensuring continuity of government policy either in domestic or foreign policy.

(6) It is oftentimes found to be wasteful and extravagant.

(7) It rests upon the false theory that every man is equal to every other man.

(8) In theory the government in a democracy is responsible to all but in practice it is responsible to none.

"Government for the People, of the People and by the People."—*Abraham Lincoln*.

All popular governments, no doubt, are organized (1) of the people.

(2) But government by the people* connotes in

**Basic principle of Democracy.—*

Popular government *rests on the principle* that (a) the great mass of the people possesses the self-governing capacity, that (b) one adult citizen is as good and as much qualified as another, and (c) that everyone should have not only an equal political status but also an equal share in the actual work of governing. Bryce defines it as that "form of government in which the ruling power of a

modern times the idea that the great mass of the people govern themselves, that each individual possesses the self-governing capacity, that one man is as efficient as another and that the status of each is not only equal but each equally shares in the actual administration of the government. Of course, the majority rules and the minority forms the opposition.

(3) *The government for the people* implies that the government is not for the majority but for all. Of course, in all democratic governments there exists more than one party, the majority and the minority. Again, there are special interests or minorities in all states. *But the ideal is that the majority rules with the consent, confidence and help of the minority.*

The same idea was expressed by Bentham when he said that the aim of any good government "*is the greatest good of the greatest number.*" He never meant the good of the majority or a class rule. The worst interpretation that may be given to his statement is that sometimes the interests of a few should be sacrificed to safeguard the interests of all or the largest number of citizens.

Direct Democracy adapted.

In modern times there is a tendency to adapt the spirit, of direct democracy to representative democratic institutions

state is largely vested in the members of a community." Bluntschli goes a step further and qualifies the idea by stating that "*those best qualified should govern in the name of and for the benefit of the whole nation.*"

"It is possible to fool some people for all the time and all the people for some time but it is not possible to fool all the people for all time."

The essence of democratic or popular government is that the executive is ultimately responsible to the people through the legislature.

by such methods as referendum, initiative, recall, frequent elections, etc. (Read pp. 168-69).

Success of Representative Democracy.

Mill enumerates three conditions which are conducive to the success of representative democracy :—(1) The people should accept it; (2) they must fight for its perservation; and (3) should possess the ability to work it properly.* But we must accept, with a grain of salt the doctrine that one should enter water after he has mastered the art of swimming. The organization of democratic institutions would give us the requisite ability to work it.

The Future of Democracy.

To-day the volume of opinion is in favour of democracy and the doubts and misgivings of the last century have died natural deaths. Maine and Leckey, the merciless critics of popular government have since then recanted. It has spread over the greater part of the civilized world. "Its continued spread is inevitable and irresistible, and no hand can stay its advance."

But certain essential conditions must be fulfilled to safeguard and ensure the success of democracies. "The first condition is a written constitution placing difficulties in the way of organic changes and restricting the power of majorities." The second condition is the "*development of intelligent and virtuous citizenship.*"

* *Requisites of Democracy.*—

First, the basis of democracy is persuasion and accommodation and not force. *Secondly*, it is incompatible with extremes of wealth and poverty. *Thirdly*, democratic government demands a high average of general education to understand the modern complicated political questions and to discharge its obligations. *Fourthly*, it requires a spirit of co-operation and toleration.

The *complete success of democratic government* depends on peace, absence of poverty, a high average of general education and intelligence, a high standard of co-operation and tolerance, moral integrity, a passion for self-government and the spirit of Social Service.—
Dr. Beni Prasad.

Some think that the rise of Dictatorship will ultimately destroy the backbone of democracy. But it is otherwise. Dictatorship has arisen as the symptom of perverted nationalism. It became popular because it increased the efficiency of administration. But efficiency of administration is not the end of political existence. Dictatorship sooner or later degenerates into autocracy which brings its own ruin. It is a passing phase in the national life of a people who are either very ambitious or smarting under some great national humiliation. But the people are ultimate arbiters and democracy will inevitably and unmistakably assert itself in the long run.

4. Republic.

A republic differs from a democracy in this that (a) *the governing power (i.e., the executive)* in the former is delegated to a small number of citizens *elected by the rest*, and (b) that a republic is capable of embracing *a larger population and of extending over a wider area of territory* than a democracy. England is a democracy but France, Germany and the United States are republics. Not only the chief executives (the presidents) in republican states are more or less directly elected by the people but most of the executive offices are elective.

5. Cabinet or Popular Government.

A cabinet or a *parliamentary* or a *responsible* form of government is one in which the *nominal* executive, *i.e., the King or the President*, is irresponsible, while the *real* executive, *i.e., the ministry or cabinet* selected out of the majority party in the lower house of a legislature, is fully and *legally* responsible, that is to say, should resign office as soon as it loses its majority in the Lower House. In short, it is a *government by a committee of the legislature*.

In *England*, the King is the irresponsible executive, but the cabinet or ministry which is composed of the leading

members of the majority party in the House of Commons is responsible in the sense that it would resign office as soon as it loses its majority in the house. England, France, Germany, Belgium, have all cabinet or parliamentary or responsible forms of government. Under the new Government of India Act, there is no ministerial responsibility at the centre and even so far as the provinces are concerned, a great controversy once raged round the question followed by a deadlock.

In a cabinet or parliamentary government, the executive heads or ministers are also members of the legislature. So the legislative and the executive functions are combined in the same hands. It, however, ensures harmony.

6. Presidential Government.

Presidential or non-parliamentary or non-responsible form of government is one in which the chief executive (the President) is politically irresponsible to the legislature (*i.e.*, would not resign office on an adverse majority vote). As regards *his tenure of office* and also as regards *his policies* and *acts* to a large extent, he is not accountable to the legislature except for certain grave crimes and offences. The legislature at the most can refuse to ratify some of his proposals. The United States of America is the notable example of a *presidential form of government*. The President of the United States would never resign office on an adverse vote of the federal legislature—the Congress. On the other hand, the Congress is also secure from presidential encroachment, so the U. S. A. government is also called *congressional government*. The president is not a member of the legislature and is independent of it. He appoints the ministers who cannot be removed by the legislature. The President is elected directly to his office by the American citizens and holds it for a period of four years.

Cabinet vs. Presidential Government.

The cabinet government which is called responsible or parliamentary government possesses all the merits of democracy (read page 141). It can fit itself to the changing conditions of time. Unpopularity of a government can at once be recorded by a dissolution of the legislature. The majority cannot for long be tyrannical. The government can be held immediately responsible for every act of omission or commission. But this does not make for stability of government. In France, the average life of a ministry is less than six months.

The presidential system, on the other hand, is comparatively stable. As the president is elected by the people he does not hold himself responsible to the legislature. An energetic president can work with greater freedom and vigour. The system is suitable for countries which are composed of different communities having diversity of interests. But the system runs the risk of bringing into conflict the legislature and the executive.

7. Bureaucratic Government.

It is a government by officials, who are specially trained for the purpose and enter service after a regular course of study and examination. They lose contact with the people and develop a routine life. Bureaucratic government does not foster *patriotism, self-reliance and loyalty*. This is the form of government which obtains in our country. It is managed and manned by the Civil Service. But it makes for efficient administration. *But efficient government is not good government.*

A *popular government*, on the other hand, which is officered by elected representatives of the people who occupy office for short periods of time, cannot necessarily be very

efficient but as they never lose touch with the people, the form of government is universally cherished.

8. Unitary or Federal Government.

A unitary government.—"A unitary form of government is one in which governmental authority is vested in one single organization, other organizations of government within the state owe their existence to, and receive their authority from, this body." The British Empire has got a unitary form of government. All powers are vested in the British Parliament, and the other local organizations of government, *e.g.*, the governments of Canada, Australia, South Africa, India, etc., owe their existence to, and derive their authority from the British Parliament. All the rights, privileges and autonomy they enjoy at present have been conferred on them by the British Parliament and can be withdrawn at its pleasure. But that is only theoretically or legally true. In practice, the British Parliament rarely interferes with the governments of the Dominions. Recently, the statute of Westminster has openly acknowledged the autonomous existence of the Dominions.

A Federal Government: Distribution of Powers.

A *Federal Government* is a government formed by the Union of a number of formerly independent or sovereign states which have subsequently given up their separate existences and sovereignties and have merged themselves into one state. They must have *two sets of governments*, one *union or federal*, and the other *local*, *i.e.*, of each component state. The federal government is entrusted with those functions which require to be uniform throughout the state, *e.g.*, postal service, currency, army, navy and certain laws. The local governments or governments of the component units are entrusted with their internal administration with

the reservation that the federal government should never be allowed to interfere with their internal administration. Or in other words, each set of government works within its own sphere without interfering or being interfered with by the other set.

The United States of America is a federal union of 48 formerly independent states. When the federal union was brought into existence, the component states gave up their individual independence or sovereignty and became merged into one United States of America. The federal government is located at Washington and each component state has a separate internal administration of its own. As India is going to have a federation, we will have the central or federal government located at Delhi, and each province, or an Indian State which is now ruled by an Indian prince, will form a distinct component unit with an autonomous local administration of its own.

Federations: Two Types.

The principle of distribution of powers between the central and the local governments is not uniform in all federal states, nor the distribution is complete and final.

No constitution can be so complete as to enumerate specifically all the powers that belong to the central or to the local governments respectively. As time rolls on certain problems may crop up which it may be difficult for us to decide as to what set of governments they should belong. For example, when the American constitution was drawn up nobody could conceive of the invention of aeroplanes, and so only lately has arisen the problem as to which set of governments it should be relegated for administration.

In such cases two principles may be generally adopted, either to reserve the *residuary* powers or unspecified juris-

diction to the local governments, or to the federal, that is to say, to relegate the residual matters not enumerated in the constitution to either of the two sets of governments. In the United States the residuary powers belong to the local governments or commonwealths, and in Canada to the federal government. As the residuary powers do not belong to the federal government, the U. S. A. federal constitution has been called the *imperfect or confederate type*, and the Canadian type, the *perfect type* of federations. The modern tendency is to reserve the residual powers for the federal government. In the new Indian constitution the residual powers would rest practically with the Governor-General.

Federal Citizenship.

In a federal state like the United States, a citizen owes allegiance both to the particular commonwealth or state to which he belongs, say to Virginia, and also to the federation. Thus it seems he owes double allegiance. Formerly his allegiance to his commonwealth was considered to be *primary*, and to that of the federal government as *secondary*. But now-a-days the federal citizenship is considered primary and the commonwealth or state citizenship as secondary.

Merits of Federal Government.

(1) It affords a means of uniting into a powerful state a number of scattered states and political units. *It represents a great advance in human co-operation.*

(2) It admirably combines the advantages of national unity and power with those of local autonomy.

(3) By distributing powers among two sets of governments it prevents the despotism of any one of them.

(4) Federation allows opportunity for experiment in local legislation which is impossible in a vast unitary state.

(5) It stimulates, through local self-government, interests in local affairs and educates citizens in civic duties.

(6) The administration of federal subjects on a vast scale is expected to be very efficient, but in a large unitary state the administration of local affairs from a single centre has many difficulties of its own.

Weaknesses of Federal Government.

In *foreign affairs* its powers may sometimes be limited by the rights of component states.

In *internal affairs* it is also weak, *e.g.*, in such matters like marriage and divorce, the varying regulations of different commonwealths prevail simultaneously.

There are also dangers of internal disruption due to the system of double government which may result in an administrative chaos and a multiplication of troubles and expenses. It is also very difficult to understand the working of a federal government than a unitary government.

India a Federation?

(1) To a vast country like India with its diversities of people, climate and culture, federation will bring unity.

(2) British India with a democratic government and the Indian States with autocratic governments should not be allowed to stand side by side. Democratisation of the Indian states should precede the federation.

(3) Provincial autonomy would stimulate interest in public affairs and would lead to amelioration of the condition of the people.

But so long as the Princes do not introduce democratic forms of governments in their states and yet are allowed to occupy a large proportion of seats in the federal legislature, federation would merely mean a fresh lease of life for irres-

possible government for another half a century. (Read, New Indian Constitution, Pp. 81-82).

Future of Federation.

"Present political expediency, as well as past political necessity has found value in federalism, and many writers predict a further unification of states at present independent, on a federal basis." (Gettell). The history of the last fifty years support the statement. Sidgwick remarked that "the extension of federalism seems the most probable of the political prophecies relating to the future forms of government." "Just as in the middle ages the tendencies was towards absolutism, so at the present time the movement seems towards federalism." The present War also demonstrates that smaller states can only exist on the sufferance of bigger states.

9. Dominion Form of Government.

The dominion form of government obtains in the self-governing colonies of Canada, Australia, South Africa, and New Zealand, and in the Irish Free State. The chief executive, that is, the Governor-General, is appointed by the King and possesses only nominal powers. The cabinet form of government prevails in them and the leader of the majority party, who becomes the prime minister, with his cabinet comprise the real executive. For all practical purposes the dominions are autonomous. The only evidence of dependence on Great Britain relates to their *foreign relations*, i.e., in matters relating to peace, war, treaty-making and defence of their foreign possessions. But lately they have been tacitly conceded the right of maintaining their own army and navy, of entering freely into commercial treaties with foreign states, etc. The tendency is towards full freedom of the Dominions. The only bond of union seems to be the

taking of an oath of allegiance to the British King. But Ireland has refused even to take it.

Dominion Status defined.

The Inter-Imperial Relations Committee (Balfour Committee), 1926, did thus define Dominion Status which was finally embodied in the Statute of Westminster:—

"They are autonomous Communities within the British Empire, equal in status, in no way subordinated one to another to any aspect of their domestic or external affairs though united by a common allegiance to the Crown, and freely associated as members of the British Commonwealth of Nations."

The above declaration of status on analysis may be said to contain the following elements:—(a) Autonomous communities, each is self-governing; (b) existing within the British Empire; (c) equal in status; (d) subordination of one by another being absent, each has complete freedom of action in both domestic and external affairs; (e) united by a common allegiance; (f) association being free and coercion absent.

10. The best form of Government.

No one form of government is best by itself, for all times, for all societies, and for all conditions of men. Prof. Garner says that in determining the best form of government of any particular state or community we must take into consideration the *race characteristics*, the *history and traditions*, the *intelligence and political capacity* of the people and the *stage of development* which the society has attained and a variety of other things.

The form of government which was best suited for India in the latter part of the nineteenth century is not supposed to be the best suited for India during the second quarter of the twentieth century. Changes in circumstances,

and changes in ideas and thought as a part of the world movement bring about changes in the forms of government.

Formerly, *good administration*, whether by the people or by the bureaucracy, was supposed to be the best test of a government. "To-day", says Mill, "the test of a good government is its capacity to promote, individually and collectively, *the sum of good qualities in the governed rather than the efficiency of the government itself.*"*

Questions.

1. What do you understand by responsible government? (Cal. 1926).
2. Define Democracy. Describe briefly the process of law-making in a democracy. (Cal. 1927).
3. Point out the merits and demerits of a representative democracy. (Cal. 1928).
4. Indicate briefly the merits and demerits of popular government. (Cal. 1931).
5. What do you mean by responsible government? Are the Governments of Bengal and of India instances of responsible government? (Cal. 1931).
6. What is popular government? Mention the essentials of such a government. (Cal. 1932).
7. What is meant by a Federal Government? What are its merits? (Cal. 1935).
8. 'Democracy may be classified broadly under two distinct divisions—direct and representative'.—Explain and illustrate. (Cal. 1935).

* "A government is morally bound to keep general welfare always before itself and make it the basis of all policy and action. Beyond this no form of government can be regarded as the best under all circumstances. It depends on the totality of circumstances what type of government will suit a country at a given time."—*Dr. Beni Prasad.*

9. What are the chief forms of government and why is democratic government generally preferred? (U. P. Inter Board, 1930).
10. What do you understand by democracy? Discuss the merits and defects of a democratic government (U. P. Inter. Board, 1931).
11. Describe the conditions which are necessary for the establishment of a democratic form of government. What are the defects of democracy? Illustrate your answer with reference to modern constitutions which you know (U. P. Inter Board, 1934).
12. Clearly distinguish between a Federal and a Unitary Constitution (U. P. Inter Board, 1933).
13. Discuss briefly the different forms of government and their respective merits and demerits. (Cal. 1936).
14. Discuss the merits and defects of a democratic form of government. (Cal. 1937).
15. What are the main features of a federal government? Discuss its merits and drawbacks. (Cal. 1939).
16. Indicate the merits and demerits of a democratic form of government. In the light of modern political development do you think democracy will survive? (Cal. 1941).

CHAPTER XVII

CONSTITUTIONS

I. Classification of Constitutions

We have already noticed that there are various forms of governments and states. Each of them has got a structure, in the same way as a human being has got a physical constitution. The constitution of government or a state contains an enumeration of the powers of the three departments of the government, their relation to one another, the powers which the governing class possesses, the rights which the governed must enjoy, the ways in which the constitution itself may be altered or amended, and so on.

In some states the constitutional provisions are not written down into precise documents but are allowed to crystallize themselves into customs and then followed reverently as precedents, *e.g.*, in Great Britain. But in most modern states the constitutional rules have been laid down in black and white in the shape of precise documents and are popularly known as the Constitution of the State or government.

Constitution defined.

A constitution may be defined as "the collection of principles according to which the powers of the government, the rights of the governed, and the relation between the two are adjusted."

II. Rigid and Flexible Constitutions

Written and Unwritten Constitutions.

Every state must have a constitution. It may be *written* or *unwritten*. The modern tendency is for having

a written constitution. France, Germany, Italy, Turkey, Russia and some other smaller states have all got written constitutions.

A written constitution comprises a document in which the form and organization of the government have been noted down in black and white and the seat of sovereign authority of the state has been located. The document also enumerates the powers of the government and the rights of the governed. They are however very concise and the whole of the American constitution covers only fourteen printed pages. So it necessarily follows that alongside a written constitution, a series of customs, observances, practices and precedence crop up by means of interpretation to suit the changing conditions of time. *So literally there cannot be a wholly written constitution.*

An unwritten constitution, on the otherhand, is one, the rules and presentations of which in the main rest for sanction only on long-standing customs and have never been reduced to writing. Such constitutions rest mainly on usages, customs, and judicial decisions and sometimes comprise statutory enactments of a fundamental character passed at different periods of times. "Constitution of this class are not struck off at once by the hand of man: they prove the dictum that *constitutions grow instead of being made.*"

It is often thought that a written constitution safeguards individual liberty by acting as a check on the arbitrary authority of government. Now let us see whether such a check is possible. A check is apparently possible only under two conditions, (1) if the constitution be a written one and does define and limit the powers of the government and declare that any action of the government beyond its legal province is void, (2) and if it be possible to enforce the restrictions which have been placed on the exercise of governmental powers.

But the above two conditions do not necessarily safeguard individual liberty. The first condition may be said to be effective

in the case of the United States where amendment of the constitution is extremely difficult. But in all written constitutions the safeguard is not operative. The provisions of the written constitution of Italy may be changed in the same ordinary way as of England. On the otherhand, the *second condition* cannot be enforced. In the old German constitution we find many provisions for safeguarding individual liberty but there were no arrangements for enforcing those provisions.

England has not got a single document which may be said to be her constitution. So people say that '*England has got no constitution*,' or at most *she has got only an unwritten constitution*. But the latter statement is not wholly true, because she has some scraps or fragments of constitutional documents, such as the Magna Charta, Bill of Rights, etc. In short, she has not got a *wholly unwritten constitution*. Actually there cannot be a *wholly written* or *wholly unwritten* constitution. In the elaborately written constitutions of the United States, gradually there have entered many unwritten elements, *e.g.*, one cannot become a President of the United States for the third time even though there is no such provision in any part of the constitution. The custom has arisen out of the refusal of George Washington to become the President of U. S. A. for the third time. But this custom has been transgressed by President Roosevelt by getting himself elected for the third time, the extenuating circumstance being the present-day international situation.

So the classification of constitutions as written or unwritten has no real significance.

Bryce wanted to classify states according to the *method by which they can be amended*. Some constitutions can be amended by the ordinary process, *i.e.*, in the same way as ordinary legislations are passed, while others require a roundabout or special procedure. Bryce designates the former class of constitutions as *flexible* and the latter as *rigid* constitutions.

But even such a distinction is overlapping. In England and Italy the constitutions may be amended by the ordinary process of legislation while a special process is necessary both in France and America. But in the fitness of things it would be quite misleading to put France and America in the same group. Though a special process is necessary to amend the French constitution, the procedure of amendment is simpler and even easier than it is with the amendment of the flexible constitution of Great Britain by the ordinary process. A joint sitting of the two houses of the legislature, known as the National Assembly, can amend the French constitution. While in the case of America two-thirds of the members of both Houses of the Congress are to propose amendments, or two-thirds of the forty-eight states are to call a Convention to propose amendments, which in either case must be ratified by the legislatures of three-fourths of the states or by the three-fourths of the members assembled in a Convention.

Merits and Demerits of Flexible Constitutions.

The chief merit of the flexible constitution is its *elasticity* and *adaptability*. In times of emergency it can be twisted, interpreted and altered so as to satisfy popular demand. Thus by extending constitutional progress it can avoid revolution. It also reflects the *natural outgrowth* of the national life. A constitution grows and expands as the nation matures and its life prolongs and history accumulates.

But the chief defect is that flexible constitutions are *unstable* and have *no guarantee of solidity and permanence*. They being easily alterable, they are *not recognised as particularly sacred by the people*.

Merits and Demerits of Rigid Constitutions.

The *chief merit* of a rigid constitution is its *certainly, definiteness and stability* as it is written down in black and white on paper. Moreover, these constitutions are *stable*

in as much as their provisions cannot be altered in the ordinary way. A special process of legislation is required to modify or alter them.

The *chief demerit* lies in the fact that *clearly expedient changes are difficult to accomplish* because of the roundabout and special procedure necessary to bring about an amendment. "While nations move onward, constitutions stand still." *Hence there is latent the danger of revolution.*

Further, as many a formal and special procedure had to be gone through in amending the constitution, much of our attention seems to be engrossed by form than by substance. *The future, however, lies with the rigid form of constitutions.*

Requisites of a Good Constitution.

A good constitution must possess the following characteristics: (1) It should be definite. (2) It should be comprehensive, *i.e.*, should cover the whole field of government. (3) It should be brief. "In outline alone should the constitution organize the state."

Questions.

1. What do you understand by the term 'constitution'? Indicate in brief the merits and demerits of rigid and flexible constitutions. (Cal. 1925).

2. What do you mean by the 'constitution' of a state? Distinguish between (a) written and unwritten constitution, and (b) rigid and flexible constitution.' (Cal. 1929).

3. Define 'Constitution'. (Cal. 1931).

4. Give a brief description of the different types of constitutions explaining the ground on which they are classified. (U. P. Inter. Board, 1932).

5. Distinguish between rigid and flexible constitutions. How can the constitutions of (a) Great Britain, and (b) India be amended. (Cal. 1939).

CHAPTER XVIII.

PARTY GOVERNMENT.

Parties, their Functions and Organization

Political Parties and Factions.

*A political party may be defined as a more or less organized group of citizens who act together as a political unit.** The members of a political party seem to hold similar views on the leading political questions of the day and unite together to bring about by their joint endeavours the adoption and fruition of some objects of national interest. A political party follows a particular principle in which they are all agreed. A party seeks to attain power in the government by electing a majority of the members of the lower house of the legislature.†

A two-party system is better than a multiple party system. In the latter case it becomes very difficult for a party which is in office to retain its majority for long.

A *faction*, on the other hand, is a body or group of persons the bond of union among whom is promoted by personal interest and selfish motives of aggrandisement than by any high principle of public policy or national interest.

* For definition of Political Parties, read p. 67.

† HOW AND WHY PARTIES ARE FORMED.—“In every community there must needs be diversities of view regarding public matters. Leading men become the exponents of opposed views. Other men fall in behind them, professing agreement. To gather adherents and to make their views prevail, they combine and organize.”—(*Bryce*).

Functions of Political Parties.

The main functions of the party system are:—

(1) *It makes democracy workable over large areas,* just as it has done in the United States, Great Britain, France and Germany. It is natural that opinions should differ among men. But unless public opinion be organized through parties, stable government, through the support of the majority in the legislature, becomes impossible. A government is impossible if it has to depend on the uncertain attitude of the members of the legislature which is the depository of all powers in democratic governments.

(2) *It does away with the rigid separation of powers in the government.*—Government would have been impossible in the United States because of the too rigid separation of powers, had not the system of party organization been perfected there. The party that obtains majority elects and controls both the legislature and the executive, so the alleged rigid separation of the departments of government in America can never produce the evils of a deadlock.

(3) *It makes decision of great issues possible by dividing the whole country into two camps of "yes" and "Nos." It formulates and organizes public opinion.*

(4) *In large countries, party government is an essential necessity.* The party system divides the country into two or more political camps, each side championing a particular point of view and criticising threadbare the views of the opposite party. Each citizen by his nature and temperament joins one or the other party. Thus the party system helps to impart political education to the mass of the population which otherwise would have remained ignorant and unpatriotic. This education is completed during times of general election when each and every voter is approached by either of the parties and finds opportunities to know in detail

the political programme of the parties and the measures through which each professes to bring power and prosperity to the motherland. The system even induces apathetic citizens to take part in politics, *e.g.*, through the exercise of the privilege of voting.

Party Hegemony.

The party system unites people who agree on the more important questions, persuades them to sink their differences on questions of minor importance and formulates and gives expression to the collective views on questions of vital importance. Its views are expressed through initiative, referendum, the press and the platform, and it determines the character and policy of the government.

How Political Parties fight to gain power.

Each political party draws its own *political programme*, generally known as the 'platform' of the party. It carries its *propaganda* through the press and the platform and *runs its candidates* during elections. *Election campaigns* are conducted to secure the majority seats in the legislature and the party organizations spend huge sums for this purpose. When a party comes into power *its prominent members occupy all the high public offices* and attempt to translate into action the election promises and to bring about the fruition of the principles for which the party stands.

Thus political parties educate, formulate and organise public opinion to gain political power.

Merits of Party Government.

(1) *Bisection of human nature is altogether in accordance with fact.*—Sharp division of opinion is the rule among human beings. Party system affords opportunities to give voice to such sharp divisions of opinions.

(2) *Party organization is the only thing which renders popular government feasible*—Popular government is the

government by the majority, so an organized party system of government becomes a logical sequence.

(3) *It formulates and organizes public opinion and thus secures weight for popular voice.*

(4) *It harmonizes the activities of the various organs of government and offers an effective check on the arbitrary action of any one organ of government.*

(5) *Party system stimulates public spirit and rouses popular interests in political matters.*

Demerits of Party System.

(1) *Party system set up a peculiarly artificial agreement among the group of party adherents and tends to suppress individual opinion and action.* For the solidarity of the party, individual opinion has to be sacrificed often and false and injurious unanimity has to be maintained.

(2) *Multiplicity of parties in a responsible form of government makes the executive weak and halting.* It is the case with France.

(3) *Even the two party system keeps out of office some of the ablest men of the state, i.e., the leaders of the minority (Opposition) party.*

(4) *It leads to excessive pandering to the whims of the voters and to the suppression of truth.*

(5) *It encourages loyalty to party at the expense of loyalty to the state.*

(6) *The party system becomes a great evil where it is dominated by a caucus or a clique.*

Prof. Gilchrist says that "it often leads to make party spirit more comprehensive and absorbing, party criticism more systematically factious and the utterance of ordinary politicians more habitually disingenuous."

Party Organization in Great Britain.

The existence up till lately of only two rival political parties in the House of Commons in Great Britain led to the stable system of

cabinet government, the majority party undertaking the responsibility of forming the ministry. The minority party, better known as Opposition, maintains its strength by a compact organization.

There are now three parties in Great Britain, the Conservatives, the Labour, and the Liberals, naming them in order of their parliamentary strength. The introduction of a third party is apprehended to make cabinet government unstable in as much as it would necessitate a coalition between any two parties to form a majority unless any one of the three can command an absolute majority over the rest.

Party organization in Great Britain is neither so elaborate nor so complete as in the United States. But of late it is in a state of development. There are three great political organizations at the centre of the English party structure,—the National Conservative Union, the National Liberal Federation and the Parliamentary Labour Party, all having their headquarters in London.

Each parliamentary constituency is divided into several districts and are affiliated to the Central or London Association. These districts elect representatives to a party council of the whole constituency. Then each of the constituency council sends representatives to form a council for the whole country or borough. Finally, the country or borough councils elect representatives to the central body at London.

The Central Offices of each party distribute political literature, recommend names to constituencies seeking for candidates, and bear a share in election expenses. Party accounts are kept secret and large funds proceed from persons who seek posts or honours when the party will actually come into power.

Party Govt. in Continental Europe: Multiple Parties.

In Continental Europe, multiplicity of parties is the rule. As a result, in France, where there are at least nine political parties, responsible or cabinet form of government has proved to be proverbially unstable, the average life of a ministry never exceeding a bare twelve months. The majority party being necessarily a coalition of two or three parties, their cohesion breaks into pieces whenever there is any important or delicate question at issue.

Political Parties in India.

In a dependent country there should not be and cannot be more than one political party. Such a party was formerly represented in India by the *Swaraj Party*. It followed the

mandates of the Indian National Congress. It had the best organization and a very firm hold on the country. The honest *liberals* who are also staunch patriots are a good number of elderly politicians. But they have almost no following as the restless younger generation is loathe to partake of their mental equilibrium, sanity and mature wisdom. Next comes the *independent party*. They are a band of non-descript politicians who are afraid to displease either the Government or the Congress. They are opportunists and their achievements comprise the avoidance of delicate situations and of making the best of opportunities. The Mahomedans till lately had no party organization; they fought elections with individual tickets and as a group played the opportunist. During the last general election to the provincial legislatures, an effort was made by Mr. Zinnah to organize the Moslems under the Moslem League. The attempt was partially successful. The *Swaraj Party* to-day has been replaced by the Congress Party in the legislatures. In the last election the latter literally swept the polls. It had accepted office in eight majority (Congress) provinces on assurances being given by the Governors that in the normal discharge of their duties there would be no interference.

Questions.

1. What is a political party? Indicate its functions.
2. Indicate the advantages and disadvantages of the party system. (Cal. 1926, 1940).
3. What part do political parties play in the work of the state and the education of the citizen. (U. P. Inter. Board, 1930).
4. Distinguish between a faction and a political party. What are the merits and defects of the party system? (Cal. 1932).
5. Describe the essential functions of political parties in a democracy. (Cal. 1935).
6. Discuss the merits and demerits of Government by parties. (Cal. 1940).

CHAPTER XIX.

PUBLIC OPINION AND POLITICAL IDEALS.

I. Organization of Public Opinion

Democracy has been declared to be the panacea for all political evils. But the representative system through which democracy is being worked has often been found inefficient and prone to abuse its powers to the prejudice of individual liberty. Moreover, the spirit of indifference so common in democratic states leads to political and social stagnation. So it is desirable that not only through checks and balances the representative system is to be worked but also active measures should be adopted *to organise public opinion on which ideal democracy rests.*

THE PROPOSED MEASURES TO IMPROVE THE REPRESENTATIVE FORM OF GOVERNMENT ARE MAINLY THE FOLLOWING:—

(1) FREQUENT ELECTIONS.—If the term of the representative be short, then the anxiety to get himself re-elected in the next term will induce the representative to respect the opinion of his constituency.

(2) THE SYSTEM OF RECALL.—By the system of “recall”, in some American cities, a certain number of voters, by petition, may demand a popular vote as to whether or not a certain elected official shall be recalled from his office. In this way the electorate may remove, as well as choose, its representatives.

(3) ORGANIZATION OF POLITICAL PARTIES.—Voluntary associations of voters, known as political parties, determine the real policy of the state, and give to the electorate a most effective way of making the government constantly and promptly responsive to its will.

(4) SEPARATION OF POWERS.—By adopting the doctrine of separation of powers, i.e., separation of the three depart-

ments of the government, governmental tyranny may be kept in check.

(5) DEVOLUTION OF POWER.—By delegating the powers of the central government to the local bodies, local interest, efficiency, self-help and initiative may be encouraged. Thus the expansion of local self-government is a remedy against the evils of representative government.

(6) WRITTEN CONSTITUTION.—The people of a country which has a written constitution know for certain their rights, privileges and obligations. They know clearly what should they fight for.

(7) AMENDMENT OF THE CONSTITUTION.—The power of amending the constitution gives confidence to a people in their fight for freedom and allows amendments to be made according to popular will.

(8) BICAMERAL SYSTEM.—Some say that a second chamber stands for wisdom. But others point out that "if a second chamber dissents from the first, it is mischievous. If it agrees with it, it is superfluous." A second chamber for the provincial legislatures of India, it is believed, will be a positive evil. But in democratic countries it is conducive of great good.

(9) EXTENSION OF SUFFRAGE.—The system of suffrage which approaches universal suffrage seems to be the goal of modern democracy.

In addition to the above *indirect checks* on representative democracy, some *direct checks* have been proposed and in some cases adopted in modern democracies. They are mainly these:—

(1) THE INITIATIVE.—It provides that a certain number of voters may, on petition, ask the legislature to pass a certain statute and then submit it to popular vote. In the "formu-

lative initiative" a certain number of voters may actually draw up a bill in detail and demand a vote upon it.

(2) THE REFERENDUM.—It provides that a proposed law, constitutional or otherwise, may be submitted to popular vote and is to become law if ratified by the required majority. The referendum may be "*compulsory*" for all or for certain kinds of laws; or may be "optional", only when called for by a certain number of voters.

(3) THE PLEBISCITE.—"It provides for the submission of a certain matter to popular vote which though not binding on the government influences the policy of the government with regard to that matter."

(4) TOWN MEETING.—In the United States the electorate exercises direct legislation in the New England "town meetings" where the voters in a mass meeting elect township officials and decide questions of local concern.

II. Public Opinion

What is Public Opinion.

Popular government suggests the idea of popular control. *Democratic government has often been described as government by public opinion.* This popular control may be exercised through various ways of which public opinion is ultimately supreme.

Public opinion is an opinion which is generally held by the public on an important question. It does neither necessarily mean the unanimous opinion of all, nor even the opinion of a majority of the people.* It can never be the

* Lowell says, 'in order that opinion may be public, majority is not enough and unanimity is not required'. "The more generally an opinion is held, the more public it can be said to be. Public opinion is the result of the thinking of only those persons who are led to form judgments regarding matters of general interest."—*Willoughby and Rogers.*

opinion of particular interests or of communities. *It is an opinion based on reason which aims at the welfare of the community as a whole.* The minority accepts it not out of fear but being led by conviction. "All legislations which aim at the welfare of the community should be based on public opinion as the latter also aims at the welfare of the community."

"Opinion cannot be held to be public unless it is substantially shared by the dominant portion of the community. This does not mean that all persons should think alike but that *upon fundamentals they are in agreement; though differing upon non-essential matters they are willing to co-operate with regard to the essential.*"

An ideal public opinion would arise if an opinion were entertained by the whole community on the basis of the welfare of the whole. It would represent what Rousseau called the General Will of the community.

There are risks in judging correctly what is true public opinion.—It may be formed on considerations of group interest as distinct from the interest of the entire community, or it may be formed on the basis of inadequate or incorrect information, faulty judgment and lack of insight into affairs. It is so because the thoughts of an ordinary man are mostly absorbed by his vocation, his family and his friends and relations. As a result in normal times people are found apathetic towards public matters.

Popular Government and Public Opinion.

The test of a popular government is (a) how much the people actively participate in it, and (b) how much the people can influence its activities.

To-day the whole mass of the people, as in the pure democracies of Greece, does not actively participate in the administration of government but governs through their re-

presentatives. The representatives, however, on their part want to please their masters, the voters. But there is no device to consult them effectively. So they have to depend upon the current public opinion. This public opinion may sometimes appear as nothing but expression of mere whims. We ought to be cautious about that. Real public opinion must ultimately emerge. We should put greater reliance on public opinion than on individual opinion as true public opinion aims at national well-being and progress.

Majority opinion is not always the best opinion. All great reforms were met with opposition at the beginning. Slave trade was abolished in 1834, though the movement for its abolition was started as early as 1782. The majority is to be won over just as the minority. So what we understand by majority opinion is not the numerical majority but the effective majority which prevails in the end. A bare majority in a legislature may not represent the majority opinion. By discussion or persuasion, by alertness and spirit of enterprize the minority may ultimately win the day. So only that majority is to be respected which aims at the good of the whole community. Otherwise majority may mean tyranny of the majority.

PUBLIC OPINION WHEN GRAFTED.

Public opinion is alleged to be created by physical force to-day, *e.g.*, by Mussolini's Fascist party in Italy and Hitler's Nazis in Germany. By intimidation and other dubious ways those parties have been alleged to suppress public opinion and to secure political power in their respective countries. But it is undeniable that their methods have not displeased the majority, for the elections have always demonstrated overwhelming majority in their favour. The popularity of the Nazis rests on the fact that their programme is designed to bring back Germany to the same international political status which she occupied before the War or to a still more better one. But this is, no doubt, a case of public opinion created by physical force.

In the case of Italy, we find the Italians to lionize Mussolini as they believe him to be competent enough to lead them to glory. The people seem to be so much in his favour that they go so far as to take public opinion by storm and even resort to excesses to gag their

political opponents. But the recent Italian debacle in the hands of the Greeks has not only lowered Mussolini's prestige at home but put him to shame before the whole world.

Difficulties in the way of the growth of public opinion.

The agencies for the growth and expression of public opinion may be dominated and utilized sometimes by political adventures. This is particularly so in a country where the people are not homogeneous, or where an alien people rules, or where local patriotism has fired the imagination of the people, *e.g.*, in Germany and Italy. Under such circumstances, the growth of a healthy public opinion is difficult and even impossible. The dissemination of a proper system of education may in such cases to a great measure minimise the danger.*

Abuse of Public Opinion.

We must carefully guard against public opinion being dominated by sectional, class or communal interests. Sometimes it is found that powerful cliques in order to obtain pecuniary gain and political supremacy control the newspapers, radio broadcasting, etc. In such cases public opinion goes by default. Alien governments by propaganda can misdirect the public temporarily against national aspirations. But as murder must be out, sooner or later true *public opinion will assert itself*.

Public opinion is secured by the dictum that "it is possible to fool some people for all the time and all the people for some time but *it is not possible to fool all the people for all time.*"

* "A people possessing enlightened intelligence and honesty of purpose, able to think independently and to act in the public interest, and always eager to promote the general welfare, can also expect to achieve the objects of a modern democratic government."—*Lahiri and Banerjee*.

III. Agencies for expressing Public Opinion

Public Opinion expresses itself through the Press, Platform, Political parties, and Educational institutions.

The Press.

Its merits.—A free press has great merits and democracy would have been impossible without its blessings. It does not merely catalogue all events but only those which are of public concern. It states policies and discusses and criticises them so as to create public interest, it helps people to know both sides of a question so that they may draw their own conclusions and form their own opinions. It keeps government alert and vigilant so that it may not be a victim to public criticism and may not incur people's displeasure. It cannot be denied that the press furnishes constructive criticism and helpful suggestions on matters of public interest. "There are some newspapers which faithfully report all events of public welfare. The weight of their editorial columns is thrown on the side of truth, justice and progress."

Abuse of Newspapers.

They help to form public opinion. But they have defects. (1) They are almost partisan in their views and present only one side of the question; (2) they do not allow the exercise of independent thought; (3) they deal with so many topics that it leads to dissipation of thought and distraction of mind; (4) they help to stifle the power of thinking by sophistic arguments; (5) it is not to be forgotten that a newspaper must first of all be a commercial proposition, so it panders to those from whom its income is derived; (6) it may receive open or secret subsidies from wealthy persons; (7) they sometimes fan breezes of excitement; and (8) lastly, they are oftentimes influenced and subsidized by governments.

Sometimes unthinking and uneducated readers devour every word in a newspaper as if it is the absolute truth, and many journalists and proprietors of newspapers continually misuse the great power and trust which have been placed in their hands. They sometimes in order to intentionally mislead the people stoop to the meanest

practices. Further, they take sides in politics. The poorer sort of newspapers lives upon the garbage of social scandals, upon the scum of human nature, and thousands of readers wallow in the revolting details. "There are many modern newspapers which are a blot upon our civilization, and their readers are a disgrace to the name of citizen."

Only through a free press can the people check the exercise of arbitrary power of the government. The law should intervene "only when criticism of the government immediately threatens to culminate in open resistance." A clique of proprietors have sometimes been found to subsidize the press. A free press should always propagate the truth and nothing but the truth.

Literature also serves as a "potent instrument for the dissemination of knowledge and for the expression of opinion." It treats of subjects of more permanent interest, and greater responsibility is shown by the authors as they have to face more erudite critics of highly well-balanced judgments.

The Radio and the Cinema. The press is for the literate. But in India only a very low percentage of the people knows the three R's. So for the ignorant millions the Radio and the Cinema which they can see and follow may serve as the best vehicle of propagating thoughts and ideas and forming and influencing public opinion.

Legislature. Public opinion can best be visaged through the legislature. Through fresh elections during frequent intervals, the legislature becomes the embodiment and oracle of public opinion. But laws passed by the legislatures, said Dicey, are not always the result of public opinion. For it may be that (a) no opinion on the subject may exist, (b) the opinion which directs a particular legislation may not be public opinion, (c) and there may be

lacking the necessary legislative organ to give effect to public opinion.

The most important justification of government by public opinion is that it is more likely to be right than group or individual opinion. Moreover, when the people understand that the government acts in consonance with public opinion, they obey its mandates with greater alacrity and obedience even when they may personally differ.

Platform speeches help propaganda and impress people individually more than anything else. They offer opportunities for public questions to be discussed threadbare, to rouse popular interests, impress and teach the mass better than the intelligentsia and allow leaders of the people to explain the philosophy of their doctrine more thoroughly than it is possible for them to do through other ways.

Political Parties do not merely help to create public opinion but rather they serve as organs through which *public opinion* is regulated, though not actually formulated, and the partisans of parties are kept informed about the latest attacks of their opponents.

Educational Institutions mould the minds of the youth, who are citizens of to-morrow. The modern Germany and China have been the outcome of the new organization and the new spirit of their universities and educational institutions. The Public School of Harrow and Eton are the nurseries of British statesmen and military chiefs. Democracy thrives on education and knowledge, while monarchical and aristocratic governments put a premium on ignorance in order to stave off the onrush of democracy.

IV. Political Ideals

A good government is said to be orderly, just, progressive and free and is reputed to possess many other

virtues. Let us examine here some of those virtues and political notions.

1. **Liberty.**—If liberty implies anything, it means that the nation must be free. The cant of trusteeship of superior races over the inferior has been exploded with the explosion of the idea of race superiority. Secondly, liberty also implies individual freedom, *i.e.*, the right of an individual to go uninterfered with by his neighbours. This liberty should be the birth-right of all in every civilized state.

2. **Justice.**—It may be both political and moral. Political justice means *equality in the eye of law*. Moral justice is that which is rendered by a righteous individual according to his sense of justice and dictates of conscience. Every citizen should enjoy the benefits of justice.

3. **Rights of man.**—Right is a claim made by one person upon another and recognised and enforced by the state. Every right has two parties—one who claims it and another against whom it is claimed. Rights are thus correlated to duties. A citizen should enjoy full rights.

4. **Equality.**—Absolute equality is an impossible ideal. Inequality between men is both *natural*, because of the differences in the qualities of men, and *artificial*, because of the present organization of economic society which has made some people too rich and some extremely poor. *In spite of this we should aim at a certain amount of equality.* This may be made possible (1) *politically*, by treating all as equal in the eye of law and giving all an equal voice in the affairs of the state, and (2) *socially*, by cultivating a spirit of equality among all men of a community. A reorganization of modern economic society is expected to do away with much of the present inequality of men. (Also Read, pp. 86—88). Citizens should enjoy as much equality as possible.

5. **Fraternity.**—Mutual sympathy often breeds a feeling of brotherhood among men. Education, propaganda, and other devices may help the growth of fraternity. But after all it is *spontaneous* and cannot be promoted artificially. *So fraternity can hardly yet be accepted as a political ideal.*

6. **Greatest happiness of the greatest number.**—This seems to be the goal of modern government. It is only a rough statement of an obvious truth and is not really a guiding principle.

V. Civic Life

The Civic Life.

The civic life is a co-operative enterprise. There is a *human reciprocity*, i.e., interdependence between men. Men are also *interdependent in regard to the quality of life*. That is to say, the good life can be secure and certain for some only on condition that it is also secured to others. For example, if there be an outbreak of cholera in an insanitary bustee situated in the midst of an otherwise clean town, people living in the cleaner parts would run the risk of catching the infection. There is also *interdependence in education*. A community would not be able to shake off its undesirable superstitions, if many a person of the community remain uneducated. There, again, exists *economic interdependence*. If some people accept a low rate of wages others would be forced to accept it. *Thus the fact of interdependence is the central fact in social life.* "It is for that effort and organization should be directed to the welfare of the whole of society and not for isolated individuals."

Principles of civic organization.

Civic organization should be directed to attain the common good as distinct from the exclusively sectional good.

No longer there should remain any antagonism between living for oneself and living for society. One should find his highest good in the common good. *This is the civic solution of the problem of life*—Dr. Beni Prasad.

For Civic Ideals, Read pp. 70—73.

Questions.

1. What is Public Opinion? How does it influence popular government? (Cal. 1929).
 2. Explain the nature of public opinion. How does public opinion influence the legislation? (Cal. 1930).
 3. It has been said that "the doctrine of Equality is a monstrosity." What do you think? (U. P. Inter. Board, 1929).
 4. What are the chief agencies that mould public opinion in modern times? Discuss the strength and limitations of these agencies. (Cal. 1934).
 5. 'An alert and intelligent public opinion is the first essential of democracy'. Discuss. (Cal. 1936).
 6. 'Successful administration in a modern state depends largely upon the way in which public opinion is formed and expressed.' Explain. (Cal. 1938).
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INDIAN ADMINISTRATION

CHAPTER I.

THE INDIAN CONSTITUTION.

Historical Growth of British India.

*Six Distinct Periods.**

The political history of British India may be divided into six distinct periods.

I. From 1600 to 1765. EAST INDIA COMPANY A TRADING CORPORATION. From the *beginning of the seventeenth to the middle of the eighteenth century* the East India Company remains purely a trading corporation, existing on the sufferance of the native princes and living in rivalry with the merchant companies of Holland and France. "*The first period is clearly a period of charters*"—Ilbert.

II. From 1765 to 1858. EAST INDIA COMPANY ACQUIRES DOMINION. During the *next century* the Company acquires and consolidates its dominion, shares its sovereignty in increasing proportions with the Crown, and gradually loses its mercantile privileges and functions. "*The second period is marked by Acts of Parliament passed at almost regular intervals of twenty years.*"

III. From 1858 to 1917. POWERS OF THE COMPANY PASSES TO THE CROWN. *After the Mutiny of 1857* the remaining powers of the Company are transferred to the Crown. "*The third period commences with the Government of India Act of 1858 which declared that India was thenceforward to be governed by and in the name of Her Majesty the Queen of England.*"† The Reforms of 1861, 1892 and 1909 are

* Gazetteer, Vol. IV., page 5, and Anderson, page 3.

† M. R. Palande, Indian Administration, page 4.

the outstanding incidents which followed till the Great War which brought about a fundamental change of policy in regard to India's relations with England.

IV. From 1917 to 1919. PRONOUNCEMENT OF AUGUST 20, 1917. — *A fourth period may be said to begin with the memorable pronouncement of August 20, 1917* which announced a desire on the part of Great Britain for the progressive realization of responsible government in India as an integral part of the British Empire. The Act of 1909 was replaced by the Act of 1919.

V. 1919 and After. The Simon Commission was appointed to "enquire into the working of the system of government introduced by the Government of India Act of 1919," and to report "as to whether and to what extent it is desirable to establish the principle of responsible government in India." Then began the most troubled period in the political history of India. Three Round Table Conferences were held in London. A Minorities' Pact was formed and the Communal Award was announced. Finally, the Government of India Act of 1935 was passed.

VI. From 1936 onwards.

I. FIRST PERIOD : Commercial Career. *From the Seventeenth to the Middle of the Eighteenth Century (1600 to 1765.)*

Elizabeth's Charter of 1600.

In the year 1599 a body of London Merchants met at Founder's Hall to form a company for the purpose of trading under a monopoly with the "rich and golden" countries of India. The total number of members of the Company were 217 and the total capital subscribed were £68,373 only. The famous Charter of the East India Company was granted by Queen Elizabeth on the last day of the year 1600.

The Royal Charters of 1600 and after* empowered the company "*to acquire territory, fortify their stations, defend their properties by*

* Cromwell granted a new Charter which was renewed after the Restoration by Charles II in 1661. The latter granted to the Company the right of coining money in 1682 and granted a Charter for the establishment of law courts. In 1687 James II granted a Charter authorizing the establishment of municipalities in Madras.

armed force, coin money and administer justice within their own settlements," and vested the direction of Company's affairs in a Governor and twenty-four persons who were elected annually.

At first it was merely a *Regulated Company*, i.e., one in which each member traded with his own individual capital, but very soon it was found that individual capital was too insufficient to cope with the hugeness of the enterprise, and so by 1612 the Company was converted into a *Joint-stock company*.

Portuguese competition eliminated.

During the seventeenth century India's relations with England were purely commercial. James I renewed the Charter of Elizabeth in 1609. At this period the Portuguese competition became severe. The Moguls, however, who were weak at sea needed the services of a sea-police. The English offered the services and a couple of naval defeats inflicted upon the Portuguese by the British, curbed Portuguese power and cleared the coast for the English.

The Dutch Competition.

Ambassadors from England to the Mogul Courts also secured great privileges for the English trade. During the reign of Charles I and the Commonwealth the Dutch competition began to grow in strength and there was contemplation of even winding up of the affairs of the Company. The English interlopers did hamper trade to no small extent.

II. SECOND PERIOD : 1765-1858. *Acquisition and Consolidation of the Dominion and sharing of Sovereignty with the Crown (Parliament).*

Acquisition and Conquest.

With the growth of trade, territorial expansion of the Company was aimed at. *With the acquisition of territories the right of organizing military forces was conceded* by the government in Great Britain.

Factories of Madras, Bombay and Calcutta developed into Presidencies. The first English factory* was established at Surat. In

* ENGLISH FACTORIES.—"The Company had to employ their own agents to collect throughout the country the different articles of export from India. These goods, as also those that arrived in India in ships sailing from abroad, had to be properly arranged and stocked.

1640 the Raja of Chandragiri granted a piece of land with the right to build a fort which subsequently developed into the Madras Government (Fort St. George). In 1662 Bombay was leased at an annual rental of £10 to the Company by Charles II who received it as a dowry on his marriage with the Infanta of Portugal. In Bengal along with other factories at different centres there arose in 1690 under Job Charnock the Settlement of Calcutta (Fort William). The administration of these three factories of Madras, Bombay and Calcutta came to be known as the three "Presidencies." They were quite independent of one another but subordinate to the Directors in England *and was each left in charge of a President and a Council (composed of nine to twelve members).*

With the decline of the Great Mogul Empire a number of Hindu and Mahomedan principalities came into being each of which was trying to gain ascendancy at the cost of the other.

French East India Company : European ambition.

At this favourable moment, however, to the chagrin of the English, a French East India Company was formed in 1664 and trade rivalry began.

The weakness of the central power in India and the internecine wars also imbued them with the *ambition of founding empires* by playing one prince or a soldier of fortune against another.

The Indians conquered India for Britain.

Though the foreigners had well-drilled and well-equipped European army, the Indian recruits were found to be cheap, more painstaking, brave and trustworthy. *So Indians were exploited to conquer India.* "Had India been a nation, a united country with a strong central government, this condition of affairs would never have been tolerated, but there was neither unity nor consciousness of nationalism"—(Munro).

Special warehouses were created for the purpose ; so were counting houses near them. These together with the offices of the Agents and the apartments for the business of the place, constituted what was called a factory of the Company. The life in a factory corresponded to life in a club with a common mess, common prayers and a common residence."—*Palande.*

The French were ousted by 1763.

In no time the English came into collision with the French, and finally they drew their respective government into conflict in every corner of the globe. Dupleix, a man of superior talent and imagination, had to give way before the British because he was not backed to the same extent by his home government as his rival, Mr. Clive. The treaty of Paris that was signed in 1763 stamped out French influence from India for ever.

The Battle of Plassey : Consolidation of British Power.

With the exit of the French, the British became predominant and "*from dealing in spices and dyes, the Company rose to be a dealer in revenues, territories, thrones and destinies.*" To crown all the *Battle of Plassey* was won in 1757 and in 1765 Clive accepted in the name of the Company the Dewani of Bengal, Bihar and Orissa from the Emperor at Delhi. Thus closed the first chapter of the history of the rising political fortune of the British in India.

Wars of Conquest were completed.

The Battle of Plassey (1757) made the British the virtual masters of the richest province in India and transferred the centre of Company's power from Madras to Calcutta. Warren Hastings conquered Benares, and also Salsette in Bombay for the Company. Lord Cornwallis defeated Tipu Sultan and annexed a portion of his territory to the Madras Presidency in 1792.

For the next six years the British followed a *policy of non-interference* in India. But Lord Wellesley began with a recompense. When he left the shores of India, the only territories which were left unconquered were the Punjab, Sind and Nepal. In 1824 Burma was annexed. In 1843 Sind was annexed. In 1849 Dalhousie annexed the Punjab. In 1876 Baluchistan experienced the same fate. Nepal still remains unconquered.

III. THIRD PERIOD : Administration passes to the Crown in 1858.

The Mutiny.

But the wars of conquest of the British had created many enemies. The latter were biding for opportunities and in 1857 the spirit of

revolt expressed itself in a general rising of the Sepoys. Fortunately for the English "India was too diversified to unite in a common cause and the rising was mainly confined to North-Western Provinces. It was doubly fortunate for the British that at this very moment a British military expedition was on its way to China. It was intercepted and somehow the rising was put down.

But public opinion in England would no longer tolerate a commercial company to administer a vast empire. The Act of 1858 transferred the Indian government to the Crown. Queen Victoria by the *Proclamation of 1858* took over the reins of Indian Government.

The first step in the progress of self-government in India was the Indian Councils Act of 1861. The Indian Council Act of 1892 and of 1909 were designed to introduce a system of representative government in India.

IV. FOURTH PERIOD : *The Post-War Reforms.*

India and the Great War.

In 1914 came the Great War. "India might have given England a world of trouble during this conflict but did not. The country remained quiet and loyal during the great emergency in spite of German predictions that it would flame into revolt. Not only that—India actually contributed a large expeditionary force to aid the allied cause. Indian troops fought in France and Flanders, in Egypt and Palestine, in Mesopotamia and East Africa. She also made large contributions in money."

England's vehement protestations that she was forced to join the War for the cause of *liberty and justice and to establish the principle of the right of self-determination for the small nations*, led to the logical conclusion that she must review the case of her political connection with India. "If England is out with the mission of *establishing the right of every nation to govern herself*, her profession of faith needed practical demonstration in her dealings with India."

This led to Montagu's epoch-making declaration of 20th August, 1917. Finally, the Government of India Act of 1919 was passed.

V. FIFTH PERIOD : 1909 and After. (Chap. III.)

VI. SIXTH PERIOD : 1936 onwards.

CHAPTER II.

Stages of Constitutional Evolution.

I. Company Managing its Own Affairs.

The Constitution of the East India Company.

Queen Elizabeth's Charter of 1600 vested the direction of affairs of the E. I. Co. in a *governor* and *twenty-four persons* elected annually.

In the latter part of the seventeenth century the constitution comprised the *General Court of Proprietors* and the *Court of Directors*. Every holder of £500 stock had a vote in the Court of Proprietors, and the possession of £2,000 stock was the qualification for a Director. The Directors were still *twenty-four* in number elected annually by the Proprietors. The latter body had power to overrule the Directors and even to set at naught the resolutions of the House of Commons. The Directors had large patronage* in their hands, practically every appointment was made by them. "The Directors were the persons that made the Company. They managed the trade, kept the accounts, dictated orders to the servants of the Company and consented to declaration of wars and ratification of treaties. In short, every important matter of administration and all lines of policy to be adopted by the Company were settled by them." (Palande).

Clive's Double Government : Ruling power secured.

The battle of Plassey (1757) destroyed the power of the Nawab of Bengal. The latter, in lieu of an annual pension of Rs. 50 lakhs, resigned in favour of the Company the *Nizamat powers and duties*, i.e., the powers and duties which relate to the maintenance of peace and order including the administration of criminal justice. On the other-

* "It was a lucrative privilege, the annual value of each share of such patronage divided among the twenty-four Directors and the Governor and the Deputy-Governor being calculated at £15,000."—Palande, page 11.

hand, the defeat of Shah Alam, the Emperor at Delhi, in the battle of Buxar, led him to grant the Dewani (*i.e.*, the right of the collection of revenue and the administration of civil justice) of Bengal, Bihar and Orissa to the East India Company which was to make an annual payment of a sum of Rs. 26 lakhs. Thus the Emperor and the Nawab were reduced into shadows and the collection of revenue, the administration of civil and criminal justice, and the maintenance of peace and order of Bengal, Bihar and Orissa passed into the hands of the Company. This is known as the famous double government of Lord Clive.

Attention was drawn to Indian affairs in England.

Since 1773 Indian affairs began to engage the serious attention of the British people. Stories of misrule and oppression began to reach England. Civil administration were exploited by the Company to declare very high dividends when its finances were really at a very low ebb (a deficit of £6 millions). Its officials returned to England fabulously rich and mutual jealousies among them often revealed tales of oppression and rapine which they committed in India to earn those riches.* Military reverses, such as the defeat of the Company's forces at the hand of Hyder Ali (1769), and famines (Bengal famine of 1770) still more hardened public opinion in England.

The people of England came to the conclusion that *commercial and administrative business cannot go hand in hand* and so they wanted to bifurcate the functions, leaving the administrative work into the hands of a different body, the British Parliament, which were to administer the expanding possessions of Britain.† *This led to the passing of the Regulating Act of 1773 "for the better management of the affairs of the East India Company as well in India as in Europe."*

* Parliamentary Committees appointed to enquire into the cases of oppression by the Company's servants reported that between 1757 and 1766, they secured in presents from the people of Bengal more than £2 millions and another £4 millions as "compensation for losses incurred."

† The new doctrine of the English Revolution of 1688 established the constitutional principle that *the Crown had no powers to grant the right of monopoly of trade to a Company but it rests with the*

II. Assertion of Parliament's Control over India.

1. The Regulating Act of 1773.

The Act recognised the territorial sovereignty of the Company and bifurcated civil administration from commercial and financial transactions. The civil administration was left in charge of the *Governor-General who was to be nominated by the Crown*, and the *Board of Directors of the East India Company* were left in charge of commercial affairs.

The Act "*for the better management of the East India Company*" provided (1) the nomination by the Crown of a Governor-General and four Councillors to administer the Presidency of Fort William (Bengal); and Madras and Bombay which continued to be governed by a President (Governor) and a Council were made subordinate to him. The Presidents were to communicate all important matters to the Governor-General and were forbidden to wage war or make treaties without his previous consent. The Act provided for the establishment of a Supreme Court of Judicature at Fort William in Bengal. (2) *The Board of Directors of the Company were entirely left in charge of commercial and financial matters.*

Thus developed a system of *dual government*, the Governor-General administering the Company's possessions, and the Board of Directors managing commercial and financial matters. This is the earliest case of *diarchical* form of government in India.

MERITS OF THE ACT. The importance of the Act lay in the fact that it provided the greatest *landmark in the constitutional history* of India, in as much as it (1) proclaimed for the first time the *trusteeship of Great Britain for India* with a view to better government of her people, and (2) marked the *beginning of direct interference by Parliament* in Indian affairs.

DEFECTS OF THE ACT. Though the Act was conceived in the best of spirit many vagueness and indefiniteness such as those relating to the authority of the Governor-General over the Governors of Madras and Bombay, of the jurisdiction of the Supreme Court, etc., made the smooth working of the Act very difficult.

legislature, the British Parliament. Thus we see the control of affairs of the Company passed to the British Parliament before the close of the seventeenth century.

2. Pitt's India Act of 1784.

The diarchical government after working for a decade was found to have failed. There was constant friction between the commercial and the civil authorities. Moreover, the fact of the administration of a vast empire by a commercial body with unique privileges and powers became an anomaly under the British Constitution. The mere power of nominating the Governor-General and the members of his Council by the Crown was found to amount to an inadequate control and a large power of supervision seemed to be an immediate necessity. So the Act of 1784 was passed.

The Act provided (1) that the *Governor-General was to be appointed by the Court of Directors of the Company instead of by the Crown.* But the Act established in London (2) the *Board of Control* to represent the Crown which was to superintend, direct and control all acts, operations and concerns which in any wise related to the civil or military Government or revenues of the Indian possessions. The Board of Control was composed of several privy councillors with a President *who eventually became the Secretary of State for India.* Thus the Act established the *complete supremacy of the Crown in India.*

By 1833 the *powers of the Board of Control were augmented* so much so that all orders, letters or other communications whatsoever relating to Indian affairs or to any public matter shall not be sent or given by the Board of Directors until the same shall have been approved by the Board of Control.

3. The Charter Act of 1813.

THE COMPANY LOST ALMOST ALL TRADE MONOPOLIES. In 1813 the Charter of the East India Company was renewed but it lost all trade monopolies except the monopoly of tea trade and the trade with China. English merchants who so long clamoured for a share of India's trade was thus propitiated.

4. The Charter Act of 1833. The Company a Political Body.

THE COMPANY IS TO HOLD INDIAN POSSESSIONS IN TRUST FOR THE CROWN. The Charter Act of 1833 even withdrew those two monopolies and *closed the Company's commercial business for good.*

The company henceforth became a purely political and administrative body, *holding its territories in trust for the Crown and being responsible for their good government.*

THE GOVERNOR-GENERAL WAS EXPRESSLY VESTED WITH CIVIL AND MILITARY CONTROL. The same Act raised the Governor-General of Fort William (Bengal) to the position of "Governor-General in Council for India"* though he continued to administer directly the province of Bengal till the year 1854 when Bengal was put under a Lieutenant-Governor. The direction of the entire civil and military administration and the sole power of legislation were vested in the Governor-General in Council of India. The Act created the North-Western Provinces.

5. Charter of 1853 : First Legislative Council : Six members.

GOVERNOR-GENERAL'S LEGISLATIVE COUNCIL. The Act is a landmark in the constitutional history of India. *It conferred the first legislative council upon India.* It established the first Indian Legislative Council as distinguished from the Governor-General's Executive Council. In addition to the Governor-General, and the four members of his Executive Council, and the Commander-in-Chief, *six special members nominated from the provinces* were added for legislative purposes alone. The sittings of the Legislative Council composed of all the twelve members *were public* and the *proceedings began to be regularly published.*

6. The Act for the Better Government of India : 1858.

THE BOARD OF CONTROL AND THE COURT OF DIRECTORS WERE SUBSTITUTED BY THE SECRETARY OF STATE FOR INDIA. In 1858, after the Sepoy Mutiny, the "*Act for the better Government of India*" was passed. It transferred† the control of affairs of the East India Company from the Board of Control and the Court of Directors to the *Secretary of State for India* who was to be responsible to parliament, and was to act in concert, in certain cases, with a Council.

* Lahiri and Banerjea, p. 22.

† John Stuart Mill who drafted the protest on behalf of the Court of Directors against the Bill, characterised the proposed transfer of a "Semi-barbarous dependency" to the Crown as "a folly and a mischief."—Lahiri and Banerjea, p. 23.

The Council of the Secretary of State for India was to consist of fifteen members, of whom a majority (9 persons) were to be persons who must have lived or served in India for a period of ten years. They were to hold office during good behaviour. They were not to sit or vote in Parliament. Excepting some unimportant matters in which the Council's advice was binding upon the Secretary of State for India, the *Council was merely an advisory body*. The Secretary of State for India was enjoined to submit annually the audited accounts of the revenue and expenditure of India accompanied by a statement of the moral and material condition and progress of the country. It was also laid down that no revenues of the Government of India were to be applied to defray the expenses of any military operation beyond the external frontiers of British India without the consent of both Houses of Parliament.

The Act did not make any important change in the administration of India. The Crown was to be represented by the Governor-General. The Proclamation of the Queen * which followed referred to Lord Canning as the "first Viceroy and Governor-General" of India. The designation "Viceroy" was not a statutory title.

7. The Indian Councils Act of 1861.

The Charter Act of 1853 was found to foster a great "mischief." The legislature it created could question the executive and its acts and enquire into grievances like the British Parliament instead of acting as a purely legislative body. Further, it centralised the legislature by abolishing local legislatures. The Council Act of 1861 was designed to do away with those mistakes.

CREATION OF LOCAL LEGISLATURES.—The Act of 1861 created local legislatures, Bombay and Madras obtained it in 1861, Bengal in 1862, the North-Western Provinces in 1886 and the Punjab in

* The Proclamation as announced by Lord Canning at Allahabad on the 1st of November in 1858, ran thus: "*We hold ourselves bound to the natives of our Indian territories by the same obligations of duty which bind us to all our other subjects. And it is our further will that, so far as may be, our subject of whatever race or creed, be truly and impartially admitted to office in our service, the duties of which they may be qualified by their education, ability and integrity duly to discharge.*"

1897. They were constituted on the same lines as that of the Governor-General's Legislative Council.

ITS COMPOSITION.—The local legislatures were to consist of *four* to *eight* members in addition to the Advocate-General of the province, of whom half were to be non-officials nominated by the Governors. The local legislatures *were not authorised to legislate on matters which required to be uniform* within the whole of India, such as, taxation, currency, post offices, penal codes, patents and copyrights, etc. *Sanction of the Governor-General was necessary to introduce certain measures and his final assent was absolutely necessary for all measures passed by provincial legislatures.* He thus directly controlled local legislation.

"When, by the blessing of Providence, internal tranquillity shall be restored, it is our earnest desire to stimulate peaceful industry of India, to promote works of public utility and improvement and to administer the government for the benefit of all our subjects resident therein. In their prosperity will be our strength, in their contentment our security, and in their gratitude our best reward."

GOVERNOR-GENERAL'S LEGISLATIVE COUNCIL; COMPOSITION, POWERS AND RESTRICTIONS.—In the *Governor-General's Legislative Council*, the number of "additional members," in addition to executive councillors, were to be *not less than six and not more than twelve*. They were to be *nominated* for a period of two years each, and half of them were to be non-officials and "actually some of them were always Indian."

The Governor-General's assent was necessary for all legislation. The Power of Parliament to legislate for India was reserved. The Crown through the Secretary of State could disallow a piece of Indian legislation. It is pointed out that the inclusion of Indians was the result of the experience of the Mutiny. For better administration the views of representative Indians were found to be of immense help.

SHAM LEGISLATURES CONTROLLED BY AUTOCRATIC VICEROYS.

"The Councils, both local and central had a standing official majority and a preponderance of the executive out of all proportion to that majority. *These were merely advisory bodies and even their function of humbly tendering advice was rigidly circumscribed.*"

The legislative power of the Governor-General in Council was extended by the Act. The latter was conferred powers to make laws

for all persons, all courts, and all places and things in British India; for Indian subjects and government servants anywhere in India. In case of emergency the Governor-General was empowered to make *ordinances* which was to remain in force for not more than six months.

8. The Indian Councils Act of 1892.

The spread of western education created 'a divine discontent' among the people and the Indian National Congress which sprang into existence a little less than a decade ago began to give an organised lead to the grievances of the educated community. Some political concessions became imperative. As a result came the Councils Act of 1892. It introduced the principle of *indirect representation*. Under the system neither the members were directly nominated by the Governor-General nor directly elected by the people. Local bodies and legislatures recommended the names to the Governor-General for nominations by the latter.

The changes that were introduced by the new Act were mainly the following :—

(1) *The size of the Central Legislature was enlarged.*—The maximum number of nominated representatives in the Governor-General's Council was raised from *twelve to sixteen*.

(2) *The sizes of Local Legislatures were widened.*—Madras and Bombay received local legislatures of twenty members each, the United Provinces a council of 15 members and the Punjab and Burma were allotted 9 members each.

(3) *Widened opportunities for Criticism and Enquiry.*—The Act widened the opportunities of non-official members for "*criticism, suggestion, remonstrance and enquiry*."

(4) *Conceded the right of asking Questions.*—The right of asking questions was conceded after due notice, provided such questions were not *argumentative, hypothetical or defamatory*. No discussion was to be allowed on any reply. To the President was reserved the right of disallowing a question.

(5) *Conceded the right to discuss the annual Financial Statement.*—The budget was to be discussed as a whole and not by item by item. No member, however, was to be allowed to propose any resolution or ask the House to decide upon it.

(6) *Nomination vs. Election:—an Indirect Election.*—Though the nominated system of representation was adhered to, *an apology of an elected system of representation was introduced.* The non-official members in both the central and the provincial legislatures were nominated not by the government directly but *on the recommendation of various bodies, e.g.,* by Chambers of Commerce, provincial legislatures, by Corporations, District Boards, Universities, Landholders, Trade Associations, etc. Those recommendations were not, however, binding on the Governor-General.

9. The Council Act of 1909 : Minto-Morley Reforms.

Educated India was smarting against a system of political subjection and the toy constitution could not give any satisfaction. The partition of Bengal by flouting the unanimous verdict of the people of the province created a great discontent and the feeling of helplessness that it engendered against an unsympathetic bureaucracy, led to great political restlessness which ultimately took a wrong turn and manifested itself in terrorist activities. At this time the Conservatives who were in power for two succeeding decades in England were swept away by the Liberal victory of 1905. The old policy of repression, however, continued but it seemed not to pay. John Morley became the Secretary of State for India, and the Viceroyalty was held by Lord Minto. A Committee was appointed to explore and suggest means by which the legislatures can be liberalized on *a safe foundation.* The reforms that followed as a result is known as the *Minto-Morley Reforms.*

The Indian Council Bill was passed by the Parliament in 1909. Its provisions were the following :—

(1) *Sizes of Legislative Houses were widened : A so-called Non-Official Majority was introduced, Indirect Representation was adhered to.*—Members were to be both *elected and nominated*; the maximum number fixed for the central legislature was *sixty*, for the major provinces was *fifty*, and *thirty* for the rest. *Official majority was dispensed with in the provincial legislatures* unlike in the central. But as yet the practice of *election by bodies* (indirect election) and *not by individual votes* was adhered to. A number of non-official seats were to be filled by “safe” nominations. *So non-official majority was really a misnomer.*

(2) *Persons who were excluded from Suffrage ; and the Tenure of Members.*—Officials, females, insane persons, bankrupts and in-

solvents, and males under twenty-five years of age were excluded from suffrage. The Governor-General-in-Council could disqualify a person whose election was considered contrary to public interest. Members were elected for three years.

(3) *Communal electorates were first introduced.*—Communal Electorates were first introduced and the qualifications for a vote varied from province to province. So it is said that *though technically the elective principle was adopted, in reality it was a myth.*

(4) *Certain subjects were reserved for the Central Legislature.*—As in the Act of 1892, certain subjects were specially reserved for the central legislature, such as army and navy, foreign affairs, currency, Penal Code, etc.

(5) *Asking of Questions was allowed under restrictions.*—The asking of questions under prescribed conditions and restrictions were allowed.

(6) *Restrictions on the discussion of the Financial Statement were relaxed.*—The rules regarding the discussion of the annual financial statement in the Councils were relaxed.

(7) *Full discussion of matters of Public Interest was allowed.*—Members were allowed to discuss any matter of general public interest.

In essence, however, no substantial political progress was achieved by the Act. On the otherhand, the denationalising policy of communal electorates was first introduced which was to vitiate political life in India. The executive still remained supreme instead of being made progressively responsible to the legislature.

Montagu's Epoch-making Declaration, of 20th August, 1917.

As a spontaneous mark of gratitude for India's help in men and money at the most critical juncture of the British Empire, to be consistent in her profession of faith of creating a better world based

*Separate electorates for the Mahomedan community was introduced as the result of a deputation headed by the H. H. the Aga Khan on 1st October, 1906. The principle of indirect election was also introduced through a system of representation by classes and interests.—*Lahiri and Banerjee*, p. 28.

on principles of liberty and justice, and on the insistence on the part of the two great national organizations of the Indian Empire, the Indian National Congress and the Moslem League, for the speedy introduction of a real form of responsible government modelled after the self-governing dominions, Mr. Montagu, the then Secretary of State for India, announced in the House of Commons on August 20, 1917, that—

"The policy of His Majesty's Government, with which the Government of India are in complete accord, is that of the increasing association of Indians in every branch of the administration and the gradual development of self-governing institutions with a view to the progressive realization of responsible government in India as an integral part of the British Empire."

The announcement on analysis is found to consist of the following ideas:—(1) India is to remain within the Empire; (2) the policy of His Majesty's Government should always be in complete accord with the Government of India; (3) association of Indians in administration should be at an *increasing* rate rather than being complete as was promised in the Queen's Proclamation of 1858; (4) progress of responsible self-government should be gradual and by instalments and stages; (5) responsible government in British India is the goal of British rule in India.

In the same year, Mr. Montagu came to India and in conjunction with the then Viceroy, Lord Chelmsford, agreed upon a report which was published next year known as the *Montagu-Chelmsford Report*. In the report it was stated that the time was ripe for *experimenting conditionally "responsible government" in the provinces* by transferring certain departments to the hand of ministers and relaxing control of the Government of India and Parliament over them. Parliament's control over Indian administration for the maintenance of peace, order and good government was to be retained.

10. The Government of India Act, 1919.

In 1919 a Bill was introduced in the House of Commons and was referred to a Select Committee of both Houses of Parliament presided over by Lord Selbourne. The changes that were introduced by this Committee were widely believed in India to have amounted to a "whittling down" of the original proposals embodied in the Montagu-Chelmsford Report. The bill was passed as the Government of India Act in the same year.

His Majesty the King in giving assent to the Bill issued a proclamation to the Indian Government, Indian Princes and to the people of India. His Majesty thus intimated through his inaugural message to the Indian Legislature :—"For years, it may be for generations, patriotic and loyal Indians have dreamed of Swaraj for their motherland. To-day you have the beginnings of Swaraj within my Empire, and wide scope and ample opportunities for progress to liberty which my other Dominions enjoy."

Governmental organisation.

The Central Government is composed of the Governor-General or Viceroy aided by his Executive Council. The central legislature is composed of two houses—the Legislative Assembly and the Council of State.

The Act of 1919 created ten Governor's provinces. In the provinces were created diarchical forms of Government—(1) the Governor acting *with his executive council and administering the reserved subjects*, such as, land revenue, administration of justice, police, prisons, finance and irrigation over which the legislature was given no control, and (2) Governor *acting with his ministers* and administering *transferred subjects*, such as, education, medical relief, sanitation, local self-government, etc., over which the legislature was given substantial control.

In each Governor's province there was a legislative council composed of one house only and presided over by an elected President. It controlled the transferred subjects while the reserved half was outside its control.

But in the meantime things moved so fast in India that the Act was not favourably received by the bulk of India's politically-minded population though it is an undeniable fact that it supplied the beginning of a real constitution for a future self-governing India.

11. The Government of India Act, 1935. (Chap. VI.)

Exercises.

1. Indicate briefly the policy enunciated by His Majesty's Government in the Declaration of August 20, 1917. (Cal. 1929).
2. Outline the main features of the constitution of an Indian province under the dyarchy. (Cal. 1930).

CHAPTER III.

1919 AND AFTER.

The inadequate Reforms.

The Government of India Act of 1919 did not arouse wide satisfaction. Still the Moderates and even Mahatma Gandhi and the Congress (the Amritsar Congress of 1919) wanted to work the new constitution. But very soon circumstances intervened which created a very bad atmosphere, *e.g.*, the passing of the Rowlatt Act, the agitation for the Khilafat and the Jallianwalabag massacre. The Calcutta Session of the Indian National Congress of 1920 completely rejected the new scheme of reforms.

The Non-Co-operation Movement of 1921.

The disaffection took shape in 1921 in the form of the Non-Co-operation Movement. The constructive programme of the Non-Co-operation movement was spinning and the use of Khaddar, Hindu-Moslem unity and the removal of untouchability. The triple boycott—of educational institutions, law courts and the legislatures, were considered to be the most potent weapons. The creed of non-violence was emphasized. But mass civil disobedience had to be suspended due to the tragic incident at Chauri Chaura in the U. P. Though the Government succeeded in quelling the movement, it, however, created a national consciousness hitherto unknown in India.

The Swaraj Party and the National Demand of 1924.

Repeated requests of the Assembly for a constitutional advance before 1929 were ignored. The Civil Disobedience Committee recommended the capture of Councils with a view to carry on a policy of obstruction from within. After the non-co-operation movement had subsided, a political party, known as the Swaraj Party, was formed under the leadership of Deshbandhu C. R. Dass and Pundit Motilal Nehru to follow a policy of obstruction from within the Councils. At the initiative of the Swaraj Party, a resolution known as the National Demand was passed in the Assembly in 1924

demanding Dominion Status for India. The debate on the Resolution was followed by the appointment of the Muddiman Committee. The Committee agreed that there were serious defects in the constitution.

All-Parties Conference of 1926.

In 1926, to meet the challenge of Lord Birkenhead, the then Secretary of State for India, that India cannot produce an agreed constitution, an All-Parties Conference met at Lucknow and produced the Nehru Report. It demanded dominion status for India. At first the Report received almost unanimous support. But later on, the adumbration of Jinnah's *fourteen points* led a section of the Mahomedans to oppose it. Finally, the Congress which became committed in 1929 to a programme of complete independence for India, scrapped it altogether as it merely aimed at a Dominion Status.

The Simon Commission : 1928.

According to the provisions of the Government of India Act of 1919 a Royal Commission under the Chairmanship of Sir John Simon was appointed in 1928 composed of representatives of the three chief political parties in England. The Commission was All-White, *i.e., without* any Indian member on it. This aroused strong opposition and the extremists and moderates, Hindus and Mahomedans, joined hands to boycott it. The Madras Congress proposed to boycott the Commission at "every stage and every form." The Government, however, induced most of the Provincial Councils to appoint local committees to co-operate and help in the labours of the Commission. As the Assembly did not co-operate, the Viceroy and the Council of State nominated the Central Committee.

Mahatma Gandhi pacifies the Calcutta Congress.

In the Calcutta Congress of 1928, there was great excitement over changes in the Congress creed. Opposing the resolution of Sreejut Subhas Bose, Mahatma Gandhi gave the assurance that he himself would lead the campaign for complete independence if by the midnight of the 31st December, 1929, the Government do not agree to confer dominion status on India.

Lord Irwin's Declaration for Dominion Status.

On the 31st October, 1929, before the Simon Report was published, Lord Irwin, the then Viceroy made a public pronouncement

declaring Dominion Status to be the goal of India and also promised that after the publication of the Simon Report a Round Table Conference would be called to seek a common basis on which could be formulated proposals for reform which are to be ultimately placed before Parliament. This was to capture the imagination of moderate politicians and to meet the Congress Resolution of 1928.

Congress change its Creed.

Lord Irwin's declaration did not give any definite idea as to the period when India would attain the Dominion Status. Mahatma Gandhi and Pundit Motilal interviewed the Viceroy to have an assurance that Dominion Status should immediately be granted. But as the latter failed to give any definite promise, the Lahore Congress of 1929 changed its creed and declared that *independence outside the British Empire would henceforth be India's goal*. The Congress refused to participate in the Round Table Conference in London and resorted to Civil Disobedience. The Swarajists withdrew from the legislatures, both provincial and central.

Civil Disobedience Movement.

While the Europeans and many wiseacres were laughing in their sleeves on the empty resolution of the Congress, on the 12th of March, 1930, Mahatma Gandhi to disobey civil laws set out on foot on his historical March to Dandi to break the salt laws. The thing was looked on with indifference for a few days but the apparently innocent affair sent a thrill throughout the length and breadth of India and the movement spread like wild fire. The government seemed to be overwhelmed.

Report of the Simon Commission.

At this stage, the Report of the Simon Commission was published (June, 1930). It was condemned and simply ignored by all sections of Indian opinion.*

***RECOMMENDATIONS OF THE SIMON COMMISSION**

They may be summed up as follows:—(1) It found strong reasons for reconstituting the constitution on a federal basis. (2) Diarchy is to terminate in the provinces. The provincial cabinet is to be chosen by the Governor from the elected members. The former can also nominate an official or non-official minister. Under such conditions law and order can be transferred. (3) To separate

The First Round Table Conference.

Understanding that things have taken a nasty turn, the Government again reverted to the policy of winning a section of the people. The Round Table Conference that was promised in Lord Irwin's Declaration of 1929 was announced to be held. With the permission of the Viceroy, Tej Bahadur Sapru and Mr. Jayakar made attempts to bring about a reconciliation between the Government and the Congress. They met Mahatma Gandhi at Yeravda jail and Pundit Motilal at Naini jail. But the negotiations failed as the government was not in a position to assure that the terms of reference to the Conference should include the conferring of "the substance of independence to India." So the Congress did not join in the deliberations of the Round Table Conference.

Finally, eighty-six delegates, of whom 16 were from the Indian States, 57 from British India and 13 from the three British political parties, sat in a Conference in the Royal Gallery of the House of Lords on the 19th November, 1930. The Conference was inaugurated by the King-Emperor in person amidst great pomp and

forthwith Burma from India and to take up the question of constituting Sind and Orissa into separate provinces. N. W. F. to have a separate legislature. (4) In the absence of agreement between Hindus and Moslems as to the adoption of joint electorates, separate electorates are to continue. (5) Depressed classes are expected to maintain their ground in joint electorates without special representation. (6) Ten per cent. of the total population is to be immediately enfranchised. (7) The lower house of the Indian legislature is to be called the "Federal Assembly" elected by the provincial councils consisting of members varying between 250 to 280. The Council of State is to continue composed of elected and nominated members in the same proportion as at present. (8) The central executive will continue to be the Governor-General-in-Council. (9) The Secretary of State is to continue to superintend, direct and control the India Government. (10) The defence of India should be an Imperial concern under the Viceroy acting in concert with Commander-in-Chief. The Government of India should pay an annual total sum to the Imperial authority for undertaking military expenditure, which, of course, will necessarily vary from time to time. (11) The right of the Civil Services must be maintained.

splendour. The Conference agreed to (1) a federation between British India and Indian India, (2) to confer responsibility at the centre and in the provinces with adequate safeguards. But the whole body of delegates from India admitted that there could be no peace in India if the Congress be not propitiated and Dominion Status be not conceded.

Sapru-Jayakar negotiations : Mahatma Released.

Later events proved that the hold of the Congress over the people was overwhelming. Through the intervention of Messrs. Tez Bahadur Sapru and M. R. Jayakar, Mahatma Gandhi was released from prison and a meeting was arranged between Mahatma Gandhi the sole representative of the Congress, and the Viceroy.

Gandhi-Irwin Pact.

The pourparlers between Mahatma Gandhi and the Viceroy led to the Gandhi-Irwin Pact. Truce was declared. Lord Irwin announced that the safeguards in the new constitution would be in the interests of India. The Civil Disobedience prisoners were released, the right of manufacturing salt in the salt areas was conceded, the right of peaceful picketing was recognised and confiscated properties were returned. The Congress, on its part, suspended the Civil Disobedience Movement and Mahatma Gandhi agreed to join the second Round Table Conference.

Second Round Table : Congress joined.

The arrival of Lord Willingdon synchronised with an estrangement between the Government and the Congress. On persuasion Mahatma Gandhi sailed for England on August, 1931. The National Government in England in which the Conservative element predominated and which has just replaced the Labour Government might have been willing for a patched up compromise but the implacable attitude of Mahatma and his insistent demand for real freedom, led the Government to change its tactics. Mahatma's attempts at communal amity not only failed but to crown all the *Minorities Pact* was entered into which asked for special representation not only for the different communities but for the different sections within the same community, e.g., the Hindu depressed classes were recommended separate representation as distinct from the caste Hindus.

On his return to India, Mr. Gandhi protested against the new Ordinances and other repressive measures that were passed in the meantime and requested for an interview with the Viceroy. But Lord Willingdon refused an interview on the ground that ordinances are not open to discussion. Mahatma was arrested very soon.

The Communal Award.

The Minorities Pact emboldened the British Government to drive the dangerous wedge of the Communal Award into the heart of the Indian body politic. The one-time socialist premier who more than once professed overflowing sympathy for India's aspirations, on the plea of an absence of any agreement between the Hindus and the Moslems 'forged' his Award. It not only retained separate electorates for Hindus and Moslems, but extended it to the Indian Christians and Indian women who vehemently protested against it. Then again, it not only divided communities against communities, but arrayed one portion against another, *e.g.*, the depressed class Hindus were to be elected by separate electorates with reservation of seats. Further, in order to penalise the politically conscious community in Bengal, the Hindus, it awarded only 32 per cent. of the seats to its 45 per cent. of the population. The Award can only be revised by an agreement between the opposite parties.* The Award was hailed by the communalists while it evoked despair among the lovers of nation's interests.

The Poona Pact.

Mahatma Gandhi on a careful persual of the Award became convinced that separate electorate for the depressed class Hindus would ultimately lead to the dismemberment of the Hindu Community. As a protest he began to fast himself unto death. The grave condition of his health led to a Pact being arrived at Poona between the leaders of the depressed classes and caste Hindus.

*The Award distributes the 250 seats in the Bengal Council as follows :—31 to the Europeans, Christians and Anglo-Indians, 119 to Mahomedans, 80 to Hindus and 20 to special constituencies. Even if the Hindus secure some seats in the special constituencies, say, 11 out of 20, then the Hindu total would be 91 seats while the number of seats they deserve on the basis of adult population ought not to be less than 106. Again, of the total 80 seats, 30 were to go to the depressed classes.

The Bengal caste Hindus seem to be upset by the Pact as it has conceded 30 seats to the depressed classes out of a total of 80 Hindu seats, a proportion which is not at all justified by the depressed class population. Again, as the latter have been conceded the privilege of contesting seats in the general constituencies, in some areas where they are in overwhelming number, they are expected to capture a few more seats and thus the caste Hindus who contribute four-fifths of the provincial revenues were not to secure more than 40 seats in all in a house of 250.

The Third Round Table Conference.

The Congress remained unrepresented in the Third Round Table Conference which met in London in 1932.

THE WHITE PAPER.

In 1933, the Government issued the White Paper embodying the proposals of the British Government on the subject of Indian constitutional reforms.

CRITICISM OF THE WHITE PAPER.—The White Paper does not mention of the Dominion Status. It abounds in safeguards and restraints even on all minor points.

THE PROPOSALS MAY THUS BE SUMMED UP: FEDERATION, RESPONSIBILITY AND SAFEGUARDS.

I. FEDERATION.

II. RESPONSIBILITY.

(a) **THE EXECUTIVE IS CLOTHED WITH INCREASING POWER.**—The Governor-General and the Governors will have 'new powers of law-making' known as Governor-General's Act and Governor's Acts.

At the centre, the Governor-General will himself direct and control the reserved subjects like Defence, External Affairs, etc. He will also exercise wide powers under 'special responsibility.'

(b) **THE LEGISLATURES REMAIN POWERLESS.**—For practical purposes the legislature will have no control over the purse. In the central government about 80 per cent. of the total expenditure would fall under 'reserved' and 'non-votable' heads. Of the rest which are votable the Governor-General will have power to interfere and dictate on grounds of his 'special responsibilities.'

III. SAFEGUARDS.—The Governor-General retains 'special responsibility' for (a) the financial stability and credit of the federation, (b) interests of minorities, (c) the Public Services, (d) the prevention of commercial discrimination, (e) protection of Indian States, and (f) of reserved subjects.

(c) THE SECRETARY OF STATE REMAINS THE GREAT MOGUL.

Further Stages in Constitution-making.

The White Paper proposals were examined by a Joint Select Committee. The Government of India Act based upon that Report was passed by the British Parliament and received the assent of the Crown on the 2nd August, 1935.

Acceptance of office by Congress Ministries.

The National Convention consisting of Provincial Legislators of the Congress Party and Members of All-India Congress Committee—authorised, in March 1937, Congressmen to accept office where the Congress commands a majority in the legislature, provided the Leader of the Congress Party in each case is satisfied and is in a position to declare publicly that the Governor would not ordinarily exercise his extraordinary powers; and that he would refrain from interference in the day-to-day affairs of the Provincial Administration. Though this demand was intended to avoid needless interference of the Governor in every detail of the provincial administration, it was construed by the Government as a demand for a practical abdication of the powers and authorities of Governors. On the 25th March, 1937, the Governors of Madras, Bombay C. P., U. P., Bihar and Orissa refused to comply with the demand at the time of requesting the Congress leaders of the said provinces to form the Cabinet. They pointed out that the terms of the Act were mandatory and they could not relieve themselves of the special powers even if they wished to do so. So the leaders of the Congress Party in the six provinces refused to form the Government and interim ministries were formed. Later on, some statements and gestures of the Governor-General and the Secretary of State led the Congress to accept office.

With the outbreak of the War in 1940, the Government and the Congress have parted ways. Congress Governments have resigned in the Provinces and propose not to accept office unless India gets full independence. Viceroy's negotiations with leaders of public opinion are proceeding leisurely.

CHAPTER IV.

THE INDIAN CONSTITUTION.

The Executive.

The Executive (In Great Britain).

I. The Crown.

A. THE SOVEREIGN AUTHORITY OF INDIA.

Sovereignty of India.—"India is governed by and in the name of the British Crown."

The Govt. of India Act of 1935 vests the territories in India in His Majesty. But the British King is a constitutional monarch and his powers are limited by the British constitution. The sovereign authority in Great Britain as well as in the British Empire rests with the King-in-Parliament. So the *Sovereignty of India* does not rest with the King alone, or with the Secretary of State but with the King-in-Parliament. The doctrine that the British Parliament is the Trustee of the Indian people and is responsible for the welfare and good government of India, is still maintained.

Thus we see the sovereignty of India does not remain in India but is vested in an outside authority—the King-in-Parliament of the United Kingdom. Without the concurrence of that authority there can be no change in the essential provisions of the Indian constitution. The people of India have no voice in the framing and amendment of the constitution.

FUNCTIONS AND RIGHTS OF THE CROWN.

The most noticeable feature is the *resumption in the hands of the Crown all rights, authority and jurisdiction in*

and over British India whether they were formerly vested in the Secretary of State, or Governor-General in Council or Provincial Governments. Sec. 2 says that all these powers are to be directly exercised by His Majesty except in so far as it is provided in the Act or as directed by His Majesty. Accordingly we find that certain powers of the Crown have been placed in the hands of the Secretary of State. The powers of the Crown in relation to British India are to be exercised by the Governor-General. Thus the central and provincial governments are no longer creatures of the Secretary of State. They now derive their powers directly from the Crown to be exercised in accordance with the provisions of the Act. (*Vide* Prof. K. T. Saha).

There are two groups of functions to be performed on behalf of the Crown, (a) first relating to the Federation, (b) second relating to the affairs of the Indian States outside the Federal sphere. The functions included in the first group are to be performed by the Governor-General, and functions in the second group by His Majesty's Representative. One person may fill both the offices.

The *rights of the Crown* fall into two categories, *viz.*, *prerogative* and *statutory*. *Prerogative powers* mean residue of discretionary or arbitrary powers legally left in the hands of the Crown, *i.e.*, the powers of the Crown without Parliamentary authority, *e.g.*, the power to exempt from civil and criminal law, to declare wars and treaties, of pardon, etc. *Statutory powers* include provisions relating to the Accession of the Indian States to the Federation, the issue of Instrument of Instructions to the Governor-General and Governors, the Assent to Bills and the power (of the Crown) to disallow Acts, the establishment and constitution of the Federal Courts, the constitution of High Courts, the use of His Majesty's forces, the appointment

of the Governor-General, the Governors, the Commander-in-Chief, etc., the expenses of the Crown in connection with Indian States, the control of His Majesty as to defence appointments, the appointment of Advisers to the Secretary of State, etc.

Parliamentary Control over Indian Administration.

(1) The Constitution Act of 1935 owes its origin, like the previous one of 1919, to the British Parliament and all subsequent Acts are to emanate from the same source.

(2) All Instrument of Instructions to Governors and Governor-Generals as to the way of carrying out their duties hitherto used to be issued by the Cabinet but the Act of 1935 provides that the Secretary of State shall lay before Parliament the draft of an Instrument of Instructions.

(3) No orders in Council issued by His Majesty in Council by which the provisions of the Act of 1935 may be amended can be issued unless the drafts have been laid before Parliament and an Address has been presented to His Majesty by both Houses of Parliament.

(4) All Ordinances issued by the Governor or the Governor-General for a second term shall forthwith be communicated to the Secretary of State and shall be laid by him before each House of Parliament.

(5) All Proclamations issued by a Governor or the Governor-General shall be forthwith communicated to the Secretary of State and shall be laid by him before each House of Parliament.

II. The Secretary of State for India.

(A) The Secretary of State for India (before 1935).

FROM 1874 TO 1919.—Pitt's India Act of 1874 created the Board of Control to represent the Crown which was to superintend, direct and control all acts, operations and concerns which in any wise related to the civil or military government or revenues of the Indian possessions. In 1858 when the Government of India passed to the Crown, *the President of the Board of Control became the Secretary of State for India.*

By the Act of 1858 he was made the *constitutional adviser of the Crown* and was vested with almost all the powers that belonged to the Board of Control. The Prime Minister had to select him and the Government of India Act of 1919 did provide that his salary (£5,000 a year) was to be paid out of the British Revenues.†

THE SECRETARY OF STATE AS A MEMBER OF THE CABINET.

He is a member of the Cabinet and a member of the Privy Council. Through him the Crown and Parliament exercise control and authority over India. He in the first instance is responsible to his colleagues whom he must consult for full support * * before announcing a decision in the name of His Majesty's Government. His responsibility to Parliament is collective and so he cannot act independently without consulting his colleagues. Any censure against him means censure to the whole cabinet. When he cannot agree with his colleagues he must resign.

He stands at the top of the Indian administration. Of his two Under-Secretaries, the Parliamentary Under-Secretary goes out of office with him, but the permanent Under-Secretary who is a member of the British Civil Service continues in office in spite of changes in ministry.

His Control over Indian Administration (before 1935).

The enormity of his legal powers over the Governor-General and the Government of India is clear from the following passage of the Act of 1919 :—"The Governor-General-in-Council is required by law to pay due obedience to all such orders as he might receive from the Secretary of State."

I. ADMINISTRATIVE CONTROL.

(1) *He is vested with the general powers of superintendence, direction and control which relate to the Government or revenues of India.*

† *A Survey of Indian Constitution* by Lahiri and Banerjea.

**Palande.

II. LEGISLATIVE CONTROL.

All projects for legislation whether in the Indian or provincial legislatures had first to be approved by the Secretary of State.

III. FINANCIAL CONTROL.

The revenues of India cannot be applied to defray the expenses of any military operations carried on beyond the external frontiers of India, except with the consent of both Houses of Parliament.

JUSTIFICATION FOR HIS ENORMOUS POWERS.

THE WHITEHALL DICTATES. *Sir Tej Bahadur Sapru opines:—* "I am one of those who feel that *the position in India would be ever so much easier, even under the present (1919) constitution, if the government of India could be left to deal with the local problems independently, and if the control of Whitehall over India could be substantially relaxed.*"

JUSTIFICATION FOR SUBSTANTIAL POWERS.—It is argued time and again that the Secretary of State should possess substantial powers as (a) *he alone is accountable to British Parliament not only for his own actions but also for those to whom he had relegated authority,* (b) *his presence (meaning his office) is necessary for a continuity of policy of the Indian administration.*

Prof. Palande hopes that relaxation of control by the Secretary of State may be brought about by the growth of customs and conventions. But the minority of the Muddiman Committee did not place much hope on such conventions.

(B) The Secretary of State in Council (before 1935).

Since 1858 the Council, known as the *India Council* has been attached to the Secretary of State for India. It consisted of not less than eight and not more than twelve members. Half the number of members must be persons who have served or resided in India for at least ten years. No member of the Council of India can be a member of Parliament. The ordinary term of office of a member is five years and he is to receive an annual salary.

Functions of the "Secretary of State in Council."

(1) *It conducted business connected with India.*

(2) *The Secretary of State presided over it and appointed Committees to transact speedy business.*

(3) *The Council made rules for regulating the Indian Civil Service.*

(4) *Placed the Indian Budget and a statement of the Moral and Material Progress of India before the British Parliament.*

The Secretary of State could act without his Council.

In *urgent* matters he could act without his council. Matters which were required to be kept *secret*, such as war or peace and negotiations with Native States, he could act without the knowledge of the Council. His powers in relation to *transferred* subjects (handed over to ministers in the provinces) were greatly reduced, while in the case of *reserved* subjects were restricted.

India did not want the Council.

Indian opinion was strongly against the Council. It was considered as superfluous, reactionary and a drag on the progress of India. The Crewe Committee of 1919 recommended its abolition while the Montague-Chelmsford Report was in favour of its ultimate though not immediate abolition. Mr. Ramsay Macdonald once opined: "The Council of the Secretary of State is an adjunct to bureaucracy. It becomes more and more anomalous as representative institutions are established and broadened."

The India Office.

The "India Office" which is, so to say, the Secretariat of the Secretary of State for India in Council is divided into a number of departments to deal with (a) Finance, (b) Military matters, (c) Political and "Secret matters," (d) Judicial and Public matters, (e) Revenue and Statistics, and (f) Public Works. For each such department there is a permanent Secretary assisted by an Assistant Secretary and a staff of clerks.

The Government of India Act lays down that the salary of the Secretary of State be paid out of money provided by Parliament. The salary of his permanent Under-Secretary is also provided by Parliament.

(C) The Secy. of State for India (under Act of 1935).

The Secretary of State for India remains the Crown's responsible agent for the exercise of all authority vested in

the Crown in relation to the affairs of India. The Governor-General and the Governors are constitutionally responsible to him in the exercise of their special powers or when acting in their discretion.

HIS COUNCIL IS TO BE DISSOLVED.

The White Paper as well as the Joint Select Committee declared that under a system of responsible government in India when responsibility for finance would be transferred to Indian ministers, the existence of statutory control over the decisions of the Secretary of State by a Council would be an anomaly. Such a Council was considered "manifestly incompatible alike with Provincial self-government and with a responsible federal Government."

So, Section 278 (8) of the Act provides that the Council of India shall be dissolved with the establishment of Provincial Autonomy (which was given effect to on the 1st of April, 1937).

Body of Advisers of the Secretary of State.

The White Paper and the Joint Select Committee, however, suggested that he should have a small body of Advisers to whom he could turn for advice in financial and service matters and on matters which concerned the Political Department.

Accordingly Section 278 provides that the Secretary of State shall appoint a *body of persons, not being less than three nor more than six in number to advise him in any matter relating to India on which he may seek advice.*

At least one-half of the Advisers must have held office for *ten years* or more under the Crown in India and must have left India for more than *two years* from the date of their appointment. An adviser shall hold office for a term of five years and shall not be eligible for re-appointment.

An Adviser shall receive a salary of £1,350 a year with additional subsistence allowance of £600 in case he has an Indian domicile.

It is provided that with the introduction of Provincial Autonomy, the salary of the Secretary of State for India and the expenses of his Department, shall be paid by the British Exchequer.

Secretary of States' relations with his Advisers.

The Advisers are to be completely subordinate to the Secretary of State. It is discretionary on his part to consult his Advisers either collectively or individually. He may not consult them at all. Even when he does consult them, he is not bound to act on the advice which they tender. But in matters relating to the Public Services in India, he must consult them and obtain the concurrence of the majority of them. Thus the institution of Advisers is found to be superfluous, wasteful and unnecessary.

The Secretary of State is still a great Mogul.

The Act of 1919 entrusted the Secretary of State with full control over the Indian administration, both civil and military. The constitution being a unitary one, control over the Central Government implied control over the provincial governments as well. As a matter of convention, the Secretary of State did not interfere in the limited sphere of transferred subjects of Provincial Governments.

The Act of 1935 has introduced the federal principle. So the central and the provincial governments will derive their powers from the Constitution and will be independent of each other. The introduction of complete responsibility in the Provinces will therefore fully limit the control of the Secretary of State over provincial matters except when the Governor exercises his special or discretionary powers.

As regards the Central Government, the powers of the Secretary of State will be limited much more than before. *But on the whole he would stand at the top of the Indian administration as its guardian.*

CONTROL OVER THE INDIAN ADMINISTRATION.

Section 14 of the Act lays down that the Governor-General in his '*discretion*' or in exercise of his '*individual judgment*' *shall be under the general control of and comply with such particular directions, if any, as may from time to time be given to him by the Secretary of State.* This is bound to be the case so long as the Secretary of State is responsible to Parliament for Indian affairs.

Powers of the Secretary of State summarized.

They may be enumerated as follows :—

(a) The Secretary of State is to supervise, direct and control the Governor-General and the Provincial Governors acting in their *discretion* or *individual judgment* (sec. 140-345).

(b) Recruitment, and protection of certain services, such as the I. C. S., I. M. S., etc., is left to him.

(c) He is to issue Orders-in-Council, or any act by His Majesty-in-Council, such as the exercise of the King's statutory power in the shape of giving assent to, or withholding assent or disallowing any Indian Legislation.

(d) He is to exercise financial powers with regard to borrowing in Great Britain, payment of pensions, interests, etc.

(e) He is to act as the constitutional adviser of the Crown in regard to Indian States.

(f) He is to exercise emergency powers, and those in regard to inter-provincial disputes.

CRITICISM OF THE SECRETARY OF STATES' POWERS.

The above controlling and directive powers left to the Secretary of State will make him a real dictating authority in the most vital concerns of the Government of India. So there is no relaxation of British Imperial authority under the new constitution.

Under the new Act, the King can disallow any Indian legislation, and the Secretary of State can extend, repeal or modify any extraordinary legislation known as the Governor's or Governor-General's Acts and can exercise general control in the final suspension of the entire Indian constitution. Further, he remains the supreme authority in regard to the *areas excluded* from the regime of constitutional government, and in times of national emergency, *e.g.*, internal disorder or war, control is vested in him. Finally, in matters relating to Indian States outside the Federation, he, as the adviser of the Crown, is the sole controlling authority over the representative of the Crown.

In short, the Secretary of State is still the most dominant authority. The Governor-General and the Governors are his creatures. From matters relating to routine administration of India, his powers extend to matters of fundamental policy and the protection of British vested interests. He governs India with little or none of its responsibility. The only check upon him is the authority of the British Parliament.

III. The Office of the High Commissioner.

The High Commissioner for India.

The post of the High Commissioner for India in the United Kingdom was created by an Order-in-Council, dated 13th August, 1930.*

Section 29 of the Act of 1919 provided for the appointment of a High Commissioner for India in Great Britain.

* A Survey of the Indian Constitution, p. 64.

He is the agent of the Government of India in Great Britain and in his person appropriates the commercial or agency function of the Secretary of State†, leaving the latter in the discharge of political and administrative functions. The Governor-General appoints the High Commissioner and the salary and conditions of the service are to be prescribed by the Governor-General, acting in his individual judgment. (Sec. 302, Government of India Act, 1935.)

No mention is made of the staff for the High Commissioner's office, which it may be presumed, will also be under the control of the Federal Government.

1. THE ADVISORY COUNCIL.

He appoints his own Staff and can enter into contracts on behalf of the Secretary of State. To him has been transferred the Indian Stores Department and the Indian Students Departments. He also supervises the work of the Indian Trade Commissioner for India. Indians who become stranded or has become destitute may also look for assistance to him.

The new Act provides that the High Commissioner,

(a) shall perform on behalf of the Federation such functions in connection with the business of the Federation, and in particular, in relation to the making of contracts as the Governor-General may from time to time direct.

(b) may undertake to perform on behalf of a Federated State or Province, or on behalf of Burma, functions similar to those which he performs on behalf of the Federation.

It will be noticed that no striking change has taken place in the status and functions of the High Commissioner.

Criticism of the Executive in Great Britain.

1. THE ADVISORY COUNCIL.

The White Paper and the Joint Parliamentary Committee are of opinion that the Council of India is anomalous

† To avoid suspicions against the Secretary of State and to provide opportunities for buying in the cheapest market, the office of the High Commissioner was created.—*Palande*, p. 61.

because it is inconsistent with the doctrine of ministerial responsibility; that it is no longer necessary in the new constitution when finance is going to be transferred to the control of Indian ministers. In spite of this finding, the condemned Council of India has been brought to life in another shape, *viz.*, in the Advisory Council. For, on a close observation one can hardly find any material points of difference between the two. So, if the Council of India is no longer necessary, its successor, the Advisory Council is also a needless substitute and should not have been established. Perhaps, it has been foisted up to serve as a cloak for perpetuating the Secretary of State's autocracy. Under the guise of expert advice, he can now cover his misdeeds while he is not statutorily bound to accept any such advice.

2. CONTROL OF THE SERVICES.

On the question of the control of the services, the British Indian Delegation at the Round Table Conference insisted that the recruitment of the Central Services should be made by the Federal Government and the Provincial Services including the Indian Civil Service and the Indian Police Service should be made by the provincial governments, who should have full power and control to determine their pay and other conditions of service. But the White Paper and the J. P. Committee recommended that the recruitment and control of these services should rest with the Secretary of State. Their recommendations have been embodied in the Act. This has been condemned by Rt. Hon'ble Srinivasa Sastri and Sir Tez Bahadur Sapru as the 'ugliest, indefensible and most reactionary feature of the whole constitution designed to placate the right-winged conservatives and the powerful All-India Services."

3. NO RELAXATION OF PARLIAMENTARY CONTROL.

The underlying principle of Montague's declaration and

* Joint Parliamentary Committee

the Montford Reform is the gradual development of self-governing institutions in India and along with it gradual relaxation of Parliamentary control over India. But in the new constitution provisions have been made which, instead of relaxing, increases Parliament's control. Instruments of Instructions and Orders-in-Council, which had been hitherto executive acts of the British Cabinet, now for the first time are made Parliamentary documents. That is to say, they are to be only approved by both Houses of the British Parliaments. Mr. Wedgood Benn—a former Secretary of State for India, describes these provisions as a clever move to bring the conservative House of Lords into a prominent position in Indian affairs.

Exercises.

1. "The general *Control*, *Superintendence*, and *Direction* of the affairs of India vest in the Secretary of State for India." Explain the terms italicized, and show by examples how each of these functions is exercised. (Cal. 1931).
2. Describe the powers and duties of the Secretary of State for India. (Cal. 1934).

CHAPTER V.

The New Constitution.

(Under the Act of 1935.)

TRANSITION TO FEDERATION.

Transitional Provisions.

The Government of India shall be carried on in accordance with "transitional provisions" of the Act of 1935 during the intervening period between the inauguration of the Reforms with Provincial Autonomy (1st April, 1937) and the establishment of the Federation.

Though the existing Central Legislature and the Central Executive are to be maintained in their present forms during the transitional period, it is quite clear that the establishment of Provincial Autonomy will necessitate a curtailment in the powers of the Central Legislature and the Executive.

THE TRANSITIONAL PROVISIONS PROVIDE THAT :—

(1) The Governor-General in Council is to exercise *executive authority* on behalf of His Majesty.

(2) The Governor-General in Council and the Governor-General shall be under the general control of and comply with such particular directions, if any, as may from time to time be given by the Secretary of State.

(3) The powers conferred by the provisions of Constitution Act on the Federal Legislature shall be exercisable by the Indian Legislature.

(4) The Federal Court, the Federal Railway Authority, and the Federal Public Service Commission shall come into existence and shall perform in relation to British India all the functions which they are to perform under the Federal Act.

(5) Certain of the provisions of the Government of India Act of 1919 (twenty-nine sections) relating to the Governor-General, his Executive Council, the Indian Legislature, etc., are to continue to have effect.

CHAPTER VI.

The Federation of India.

(Under the Act of 1935.)

From Unitary to the Federal type. (*States combined in Common*)

A UNITARY TYPE OF GOVERNMENT PREVAILED SO LONG IN INDIA. The constitution of the Government of India was so long of a *Unitary type*. The Central government was supreme in all matters and the provincial governments seemed to derive all their powers from it. The Governor-General in Council was the keystone of the whole constitutional edifice and it was through him the Secretary of State for India and ultimately British Parliament discharged their responsibilities for peace, order and good Government of India.

THE NEW CONSTITUTION INTRODUCES THE FEDERAL TYPE: ITS ESSENTIALS. The outstanding feature of the Government of India Act of 1935, which repeals in toto the Government of India Act of 1919, is the provision for the establishment of the *Federation of India*. A federal type of Government consists of two parts, a Central Government and a series of local or provincial Governments.

Both of them derive their authority from the Constitution, and are independent of each other. Each of them is entrusted with a specified set of subjects to administer. None of them is to encroach upon the sphere of activities of the other. Another essential feature of a federation is the creation of an independent and impartial judiciary which is to interpret the constitution and settle disputes arising between the two parts of the federal government.

The Indian Federation: its composition.

THE FEDERATION IS TO BE COMPOSED OF.

- (1) THE GOVERNOR'S PROVINCES and the Chief Commissioner's Provinces, situated within British India;

(2) THE INDIAN STATES which have acceded or may hereafter accede to the Federation.

THE FEDERATION WILL BE ESTABLISHED BY THE PROCLAMATION OF HIS MAJESTY.

Two conditions for Accession to the Federation.

Before the Proclamation can be made two conditions are to be fulfilled* :—

1. An address on that behalf must have been presented to the King by each House of Parliament.

2. ACCESSION OF STATES TO THE FEDERATION. Rules of States representing not less than half the aggregate population of states and entitled to not less than half the seats to be allotted to the States in the Federal Upper Chamber must have signified their desire to accede to the Federation.

Each Ruler is allowed the option of joining the Federation or not. By executing an *Instrument of Accession* a state can join the federation. In this Instrument a Ruler (1) is to declare that he accedes to the Federation, (2) he shall allow the federal authority (for purposes of federation only) to exercise in relation to his States such functions as it may be empowered by the Federal Act, and (3) he shall assume the obligation of ensuring due effect to the provisions of the Act. In the Instrument of Accession will be enumerated the matters which the Ruler accepts as being within the scope of Federal powers over his State. A Ruler may reserve the power of legislating even on federal subjects by an express provision in his Instrument of Accession.

A. The Central Government.

Structure of the Indian Federation.

THE FEDERAL EXECUTIVE. The Governor-General, who will exercise on behalf of His Majesty the executive

* The above provisions seem to have been imposed with a view to postpone the inauguration of the federation indefinitely if after the introduction of the Provincial Autonomy political conditions in India are found to be unfavourable to go further ahead.

authority of the Federation, will have special responsibilities. A Council of Ministers will aid and advise him.

THE FEDERAL LEGISLATURE. There will be a federal Legislature consisting of His Majesty, represented by the Governor-General, and two chambers—the *Council of State* and the *House of Assembly*.

B. Provincial Governments.

THE PROVINCIAL EXECUTIVE. There shall be *eleven Governor's Provinces, viz.*, Bengal, Bihar, Orissa, Assam ; Madras ; Bombay, Sind ; The Punjab ; The Central Provinces and Berar ; and the North-Western Frontier Province. The executive authority of a Province is to be exercised on behalf of the Crown by the Governor. His functions will be exercised with the help and on the advice of a *Council of Ministers*, subject to his retention of special powers and responsibilities. The ministers are to be chosen by the Governor who are to hold office at his pleasure.

In addition to the Governors' Provinces, there are to be *six Chief Commissioners' Provinces, viz.*, British Baluchistan, Delhi, Ajmer-Merwara, Coorg, the Andaman and the Nicobar Islands, and the Panth Piploda. A Chief Commissioner's Province is to be administered by the Governor-General acting through a Chief Commissioner.

THE PROVINCIAL LEGISLATURES. In every province there is to be a Provincial Legislature which is to consist of His Majesty, represented by the Governor.

There are to be two chambers (a) in the Provinces of Madras, Bombay, Bengal, the United Provinces, Bihar, and Assam ; and (b) one chamber in the other Provinces, *e.g.*, in the Punjab, Sind, Orissa, the Central Provinces and Berar and the North-Western Frontier Province.

In bicameral Provinces, the upper chamber is to be known as the *Legislative Council*, and the lower Chamber as the *Legislative Assembly*. In Unicameral Provinces, the Chamber is to be known as the *Legislative Assembly*.

C. The Judicature.

Under the Act a Federal Court is to be established. It is an essential element in a Federal Constitution. "It is at once the interpreter and guardian of the Constitution and a tribunal for the determination of disputes between the constituent units of the Federation."

The Federal Court is to consist of a Chief Justice and not more than six puisne judges, all of whom are to be appointed by His Majesty. The Federal Court is usually to sit at Delhi.

In each province there are to be High Courts or Chief Courts, and the Judicial Commissioner's Courts. They are to be helped by the subordinate judiciary.

The three main principles of the Act may be summed up as:—

1. *All-India Federation.*
2. *Provincial Autonomy.*
3. *Responsibility with safeguards.*

Criticism of the Scheme of the Federation.

1. THE ATTITUDE OF THE PRINCES IS UNCERTAIN.

The federation is to come when the two necessary conditions for accession to the Federation are fulfilled. But, are the Native States willing to join? In the beginning the Native States had some enthusiasm for entering into federation but with the lapse of time it is getting cooler. And to-day we find that most of the Native States are unwilling to join because by that act they will have to surrender

some of their rights of sovereignty* to the federal Government. And until the Native States join we can't have our promised federation. Furthermore, British India has emphatically protested against the undue weightage given to the Native States in the Federal Legislature. While their total population is 23 per cent. they have been awarded 33 per cent. and 40 per cent. of the seats in the lower and upper Houses respectively. Prof. Keith tells us that this has been done to provide an element of pure conservatism in order to combat any dangerous elements of democracy contributed by British India.

2. THE POWERS OF THE FEDERAL GOVERNMENT OVER THE NATIVE STATES WILL BE VERY WEAK.

It will be so because each prince will most carefully offer his own terms as to how far he shall come under federal jurisdiction. This militates against the principles of federation according to which the power of the federal Government over the units must be uniform and equal.

3. THE INDIAN FEDERATION IS OF A UNIQUE TYPE, HITHERTO UNKNOWN.

There is to be one set of federal powers for the provinces and another for each of the Native States. The Government of one part of the federation (Provinces) will be based on parliamentary principles, that of the other part (Native States) upon oriental despotisms. Eminent authorities like Prof. Newton, Mr. Lees Smith and Prof. Keith are of opinion that such a peculiar kind of combination of two mutually incompatible categories can hardly march harmoniously together.

* "The sovereignty of the states will be very considerably impaired and wholly transformed."—*J. H. Morgan.*

- ✓ 4. FURTHERMORE, THE SCHEME OF THE FEDERATION LEAVES THE STATE'S SUBJECTS (ONE-FOURTH OF THE TOTAL POPULATION) COMPLETELY OUT OF THE PICTURE.

They will have no voice in the making of the scheme nor will they have any in future (because states will be represented by the nominees of the rulers). This naturally will cause much resentment amongst them.

- ✓ 5. NO MENTION HAS BEEN MADE OF THE DOMINION STATUS.

Last but not the least, no mention has been made in the White Paper, the J. P. C. Report and the Act of 1935—of the words "Dominion Status." One feels all the more surprised at this omission because that phrase had been previously uttered by eminent authorities on solemn occasions, *e.g.*, by the late King George V in 1921, Mr. Churchill in 1921, Lord Irwin in 1929 and the late Mr. Macdonald as Prime Minister in January 1931.

Prof. Keith tell us :—"It must be admitted that it did not lie with the Government which secured the admission of India to the League of Nations to deny to the Government of India the Dominion Status". (P. 468).

CHAPTER VII.

The Federal Executive.

(Under the Act of 1935.)

DIARCHY AT THE CENTRE.

Viceroy and the Governor-General: the two in one.

Under the new constitution the offices of the Viceroy and the Governor-General of India have been separated though the functions of the two offices may be exercised *by the same person*. The Governor-General will be the executive head of the federation. The Viceroy will exercise the powers of the Crown in relation to the States and in other matters outside the scope of the federal constitution. Up till now the right of the Paramount Power have been exercised on behalf of the Crown by the Governor-General in Council, subject to the general control of the Secretary of State.

Diarchy at the Centre.

Under the Act, Diarchy has been introduced in the central government. The *Reserved side* is to consist of Governor-General and his three counsellors, and the *Transferred side* is to consist of the Governor-General and his ten ministers chosen from the dominant party in the legislature and responsible to it for the administration of subjects transferred to it.

The Federal Executive.

The executive authority of the Federation is to be exercised by the Governor-General on behalf of His Majesty.

The Governor-General is to be appointed by the Crown and shall (1) exercise such powers and duties as are conferred on him by the Act ; and (2) such other powers of His Majesty (not connected with his relations to the States) as His Majesty may be pleased to assign to him.

All executive action of the Federal Government is to be taken in the name of the Governor-General.

The Federal executive should be, in some measure, responsible to the Federal Legislature, but this responsibility should not extend to all matters.

EXTENT OF THE EXECUTIVE AUTHORITY OF THE FEDERATION.

THE EXTENT OF THE EXECUTIVE AUTHORITY OF THE FEDERATION COVERS :—(1) All matters with respect to which the Federal Legislature has power to make laws ;

(2) the raising in British India on behalf of the Crown of naval, military and air forces ;

(3) the exercise of authority in relation to the tribal areas. But the federal executive authority cannot ordinarily interfere with the powers of provincial legislatures, nor in relation to a state in excess of the powers delegated to it by the Instrument of Accession.

The Governor-General with the assistance of his Counsellors will administer the reserved subjects, while the transferred subjects are to be administered by him with the help of his Council of Ministers.

✓ 1. **Reserved side: Governor-General and his Counsellors.**

Administrative functions with respect to *defence, ecclesiastical affairs, foreign relations* (except the relations between the Federation and any part of His Majesty's dominions), and the *tribal areas* shall be exercised by the Governor-General in his discretion. His responsibility with respect to them will be to the Secretary of State and thus ultimately to Parliament. *These are to be the reserved subjects.*

To assist him in the exercise of the foregoing functions, he may appoint counsellors not exceeding three in number. These counsellors will be responsible to him alone, and will share none of the responsibility of the Federal Ministers to the Federal Legislature. Each Counsellor will be an ex-officio additional member of both Chambers of the Legislature for all purposes but without the right to vote.

In relation to reserved subjects, there is nothing in the Act forbidding the Governor-General to consult with any other person. The *discretion* rests with the Governor-General. He can also appoint a Financial Adviser to advise him in respect of his financial responsibilities.

2. Transferred side: Governor-General with his Council of Ministers.

All other departments of the government are to be administered by the Governor-General with the aid and advice of the *Council of Ministers*, who are not to exceed ten in number, subject to the retention by the Governor-General of special powers and responsibilities. *These are the transferred subjects.*

✓ COUNCIL OF MINISTERS. The Ministers are to be chosen and summoned by the Governor-General and shall hold office during his pleasure. A minister cannot hold office for more than six months unless he can get himself elected to either house of the legislature in the meantime. The Governor-General in exercise of his discretion can dismiss a minister. He may preside at meetings of the Council of Ministers.

The Governor-General should as far as possible include in the personnel of his ministry representatives of the minority communities and states' members of the Federation. No minister's salary can be subjected to variation during his term of office.

In the matter of *Selection of Ministers*, the Draft Instrument of Instruction to the Governor-General says that the Governor-General shall select Ministers in consultation with the person who, in his judgment, is most likely to command a stable majority in the Legislature. The Ministers must be in a position collectively to command the confidence of the Legislature. The need for fostering a sense of joint responsibility among his Ministers must also be borne in mind by the Governor-General.

The Ministers have no constitutional right to tender advice upon a matter in which the Governor-General can use discretion. The right is permissive and not mandatory.*

Special responsibilities of the Governor-General.

The Constitution is hedged at every step with restrictions and safeguards. The investment of special powers upon the Governor-General and the acceptance of the novel principle of "executive independence" have rendered the restricted measure of Central responsibility a myth. The factors which have greatly helped to minimise responsibility and make democracy a nullity are the *Communal Award* hatched by Mr. Ramsay Macdonald and the *Poona Pact* which culminated in the wake of the Minorities Pact.

In the exercise of his functions the Governor-General shall have the following responsibilities :—

- (1) *The prevention of any grave menace to the peace or tranquility of India or any part thereof ;*

* The Joint Select Committee points out that if it is ever made mandatory then the Instrument of Instruction to the Governor-General requires to be amended by the Parliament itself instead of being issued under the Prerogative on the advice of the executive as it is to-day. This provision, says Viscount Hailsham, makes "an unnecessary concession to Parliament and puts a brake on natural and evolutionary development of the Indian Constitution."

(2) *The safeguarding of the financial stability and credit of the Federal Government ;*

In order to assist the Governor-General in the discharge of his special responsibility for safeguarding the financial stability and credit of the Federal Government, the Governor-General may appoint a financial adviser, who is to hold office during his pleasure. This official is also to give advice to the Federal Government, whenever consulted upon any matter relating to finance.

(3) *The safeguarding of the legitimate interest of minorities ;*

(4) *The safeguarding of legitimate interest of the members of the public services as well as their dependents.*

(5) *to prohibit by executive action any legislation which aims at discrimination ;*

(6) *to prevent discriminatory or penal treatment of goods of British or Burmese origin ;*

(7) *the protection of the rights of any Indian State and the rights and dignity of the Ruler thereof ; and*

(8) *to secure that the exercise of his individual judgment or discretion may not be prejudiced or impeded by any course of action taken with respect to any other matter.*

In so far as any special responsibility of the Governor-General is concerned, he shall exercise his individual judgment as to the action to be taken.

Powers of the Governor-General.

The Governor-General's powers may be classified as (1) legislative, (2) financial, and (3) administrative.

(1) Legislative Powers.

(a) GOVERNOR-GENERAL'S ORDINANCES : (i) DURING THE RECESS OF THE LEGISLATURE.

If at any time during a recess of the Federal Legislature, the Governor-General is satisfied that circumstances exist for taking immediate action, he may promulgate an ordinance. Such an ordinance shall cease to operate *six weeks* after the Legislature has reassembled, if it has not

been *already disapproved by resolutions of both the Chambers.*

(b) GOVERNOR-GENERAL'S ORDINANCES : (ii) WITH RESPECT TO CERTAIN SUBJECTS.

The Governor-General in exercise of his *discretion* and *individual judgment* can promulgate at any time an ordinance for the immediate and due discharge of his functions. Such an ordinance shall continue in operation for a period of six months but may be *extended for a further similar period.*

Such ordinances (a) shall be subject to disallowance by His Majesty *like any other Act*, (b) may be withdrawn at any time by the Governor-General, (c) and in case it is an ordinance which has been extended for the second time, it shall be communicated to the Secretary of State.

(c) GOVERNOR-GENERAL'S ACT.

If at any time it appears necessary to the Governor-General to enact a certain legislation for the proper discharge of his functions, he may by message to both Chambers of the Legislature explain the circumstances which in his opinion render legislation essential and attach to his message a draft of the Bill.

After the expiration of one month, he may enact, as a Governor-General's Act, the Bill proposed by him with such amendments as he deems necessary. Every such Act shall be forthwith communicated to the Secretary of State.

(2) Financial Powers.

No demand for a grant can be made except on the recommendation of the Governor-General. He can restore in discharge of his special or exclusive responsibilities any demand which has been reduced or refused by the Legislature. Without his assent, no bill levying a tax, or a charge on the federal revenues, or authorising borrowing, can be

introduced in the legislature. He will administer the non-votable heads of expenditure which represent 85 per cent. of the total annual expenditure.

(3) Administrative or Executive Powers.

(i) PROVISIONS IN THE CASE OF FAILURE OF CONSTITUTIONAL MACHINERY.

If at any time the Governor-General is satisfied that a situation has arisen in which the Government of the Federation cannot be carried on, he may by proclamation assume to himself, all or any of the powers vested in the Federal Authority. Any such Proclamation shall be forthwith communicated to the Secretary of State and shall be laid by him before each House of Parliament. A Proclamation is to remain in force for six months. But if a resolution approving such a Proclamation is passed by both Houses of Parliament, it may continue in force for a further period of twelve months. A Proclamation shall cease to have effect if it had been in operation for a continuous period of three years. The Governor-General cannot, however, exercise any powers vested in the Federal Court.

(ii) THE EXERCISE OF SPECIAL RESPONSIBILITIES.

We have already noted the special responsibilities of the Governor-General in matters relating to peace and tranquility, the safeguarding of financial responsibility, the interests of minority, the interests of public services, the prohibition of trade or racial discrimination, the protection of the dignity of Indian Rulers and their rights, etc. In such matters he can overrule both his ministers and the Legislature.

(iii) HIS EXCLUSIVE POWERS IN THE RESERVED DEPARTMENTS.

In matters relating to defence, external affairs, ecclesiastical affairs, the administration of tribal areas, etc.,

which comprise the reserved departments, the Governor-General has exclusive control. He alone is *responsible* for the administration of these departments.

In matters of transferred subjects, he is to be guided by his minister's advice. But in this sphere he is entitled to act on his responsibility in respect of certain specific matters.

(iv) HIS DISCRETIONARY POWERS.

He possesses wide discretionary powers in the exercise of the Royal prerogative, such as appointments, etc. The term 'discretionary power' has nowhere been defined in the Act. Section 9, however, indicates that discretionary powers and functions are those in which the Governor-General need not even consult his Ministers if he so chooses, while in the exercise of his *individual judgment* he must consult his Ministers.

Prof. K. T. Shah's classification of G. G.'s powers.

FIVE-FOLD POWERS OF THE GOVERNOR-GENERAL.

Analysed into their proper categories, the several powers and functions of the Governor-General may be classified under five classes:—

- I. Powers and functions in regard to the *Reserved* Department;
- II. Powers and functions exercised in his *discretion* ;
- III. Powers and functions exercised in his *individual judgment* ;
- IV. Powers and functions exercised on the advice of his Council of Ministers;
- V. Extraordinary powers: (a) of Legislation, (b) of supervision over provincial governments; and (c) in relation to the States, Federated or non-federated.

An Advocate-General.

The Governor-General shall appoint a person to be Advocate-General for the federation. He is to give advice to the Federal Government upon such legal matters, and to perform such other duties of a legal character, as may be referred or assigned to him by the Governor-General. In the performance of his duties he shall have the right of audience in all courts in British India. In the courts of a Federated State, the right of audience is confined to cases which involve federal interests.

Employment of Indian troops beyond the frontiers.

The final responsibility of any decision, with reference to the defence policy of India, rests with the Governor-General. This provision seems to aim at curtailing the control of the British Parliament which formerly could alone sanction the employment of Indian troops beyond the Indian frontiers. But this apparent "dislike of the executive government for Parliamentary control of any direct kind" is not expected to produce the desired advantage but rather the reverse, since the Governor-General, who is to obey the Secretary of State and the British Parliament has been empowered by the Act to use his 'unfettered discretion' in matters relating to employment of Indian troops. The special powers that have been conferred on the Governor-General by the British Parliament during the present War shows what way the wind blows.

Exercises.

1. What are the main features of Indian federation as embodied in the Government of India Act, 1935? (Cal. 1941).
2. Describe the powers of the Governor-General in the new Constitution.
3. Describe the composition and functions of the Federal Executive in India under the New constitution. (Cal. 1940)

CHAPTER VIII.

THE PRESENT CENTRAL GOVERNMENT.

(Under the Act of 1919)

The Executive (in India).

I. The Governor-General.

Subordinate Position of the Governor-General.

The head of the Indian administration is the Viceroy or Governor-General. The Title of Viceroy has got no statutory basis and the term was first used in 1858 in the famous proclamation of Her Late Majesty Queen Victoria. The Act of 1915 vests "the superintendence, direction and control of the civil and military government of India in Governor-General-in-Council *who is required to pay due obedience to all such orders as he may receive from the Secretary of State.*" Lord Curzon was right when he described the India Government "as a subordinate branch of the British Government 6,000 miles away."

The Governor-General occupies a unique position. He is "the Crown visible in India, the ceremonial head of the Sovereignty, the great lord. He is surrounded by pomp and awe; ceremony walks before and behind him and does obeisance to him." He is not subject to the original jurisdiction of any High Court *for any of his official actions.* He cannot also be *arrested or imprisoned* in connexion with any suit in a High Court, nor, save in case of *treason or felony*, is subject to the original criminal jurisdiction of any High Court. He also possesses the power of pardon.

THE OFFICE OF THE GOVERNOR-GENERAL.

It was first created by the Regulating Act of 1773. He was the Governor-General of Bengal with certain powers of control over the Governors of Madras and Bombay. His powers did increase by the Act of 1784 and the Charter Act of 1793. By the Charter Act of 1833, he became the Governor-General of India. He was relieved of his duties as Governor-General of Bengal in 1883 and the post of the Lieutenant-Governor of Bengal was created. In the Royal Proclamation of 1858 he was for the first time acclaimed as the Viceroy and Governor-General of India.

The Central Government.

The Central Government is composed of the Central Executive—the Governor-General or Viceroy with his Executive Council, and the Indian Legislature composed of two Houses—the Legislative Assembly and the Council of State.

Powers of the Governor-General.

Though Lowell has compared him with the late Czar of Russia, really speaking, his power has been exaggerated. *He holds power subject to two limitations, (a) the control of the Secretary of State, and (b) the direction of his own Council.* “Never let it be forgotten,” said Lord Curzon, “that the Government of India is governed not by an individual, but by a committee.” But neither of these two checks make him a popular executive. He by himself “is the Indian State” and personates the Government of India. The powers which he enjoys are, however, mainly *statutory*.

(1) HIS ADMINISTRATIVE POWERS.

(a) *Power of Appointment.* He had power of appointments of the Vice-President of his Executive Council, Council Secretaries, Lieutenant-Governors, and President of the Council of State.

(b) *Power of overriding his Council.* He can override the majority of his Council in respect of any measure affecting the safety, tranquillity or interests of British India.

(c) *Power of ordering General Elections, summoning Legislatures, etc.* He has power to call meetings of his Executive Council

at any place: to summon meetings of the Legislature: prorogue the Sessions, to dissolve either Chamber of the Legislature or to extend its ordinary term, and after such dissolution *to call for a general election.*

(d) *Power of Pardon.* He can grant pardon as the Viceroy or the representative of the Crown to any offender convicted by any Criminal Court of Justice having jurisdiction in India.

(e) *Is in charge of the Foreign and Political Department.* He transacts all business connected with foreign affairs, Indian States and frontier tribes.

(2) HIS FINANCIAL POWERS.

(a) *There can be no proposal for the appropriation of any revenues or moneys for any purpose except on his recommendation.*

(b) The Governor-General is vested with the power of *certifying a money bill refused* by the Legislative Assembly. In short, the legislature is practically debarred from refusing any repugnant tax.

(c) The Governor-General has, *in cases of emergency*, the power to authorize necessary expenditure "for the safety or tranquillity of British India or any part thereof." (For further financial powers, read his legislative powers).

(3) HIS LEGISLATIVE POWERS.

(1) His *previous sanction is necessary* for the introduction, at any meeting of the Indian Legislature, of any measure affecting,

(a) The public debt or revenues of India, or imposing of any charge on the revenues of India: or

(b) the religion or religious rites and usages of any class of British subjects in India: or

(c) the discipline or maintenance of any part of His Majesty's Military (Naval or Air) Forces: or

(d) The relation of the Government with foreign princes* or States:

OR ANY MEASURE,

(i) regulating any Provincial Subject, or any part of a Provincial Subject, which has not been declared by rules under this Act to be subject to legislation by the Indian Legislature, or

(ii) repealing or amending any Act of a Local Legislature: or

(iii) repealing or amending any Act or Ordinance made by the Governor-General.

(2) *He has the power to certify*, when either Chamber of the Indian Legislature refuses leave to introduce, or fails to pass in a form recommended by him, any Bill, the passage of which is essential for the safety, tranquillity or interests of British India, or any part thereof.

(3) *He exercises his Veto over Bills which have already been passed by the Indian Legislature.*

(4) *He can promulgate Ordinances for the peace and good government of India for a space of not more than six months.*

(5) *His powers over local legislation :—*

(a) *Certain bills of local legislature can only be introduced with his previous sanction, and Section 81 authorizes him to veto Bills already passed by them.*

(b) *When a Bill passed by a local legislature is reserved by the Governor for the consideration of the Governor-General the latter may, within six months either give assent to that Bill or withhold assent.*

(c) *He may also reserve any Bill passed by a Local Legislature for the signification of His Majesty's pleasure.*

In the self-governing colonies, the Governor-General's power is limited to (3) and (5b) only, while in others he acts on the advice of his ministers who are responsible to the legislature. In India he can, on the other hand, override his Executive Council, the members of which of course, are not responsible to the central legislature and are mere appointees of the Crown.

This legislative power alone makes him all powerful. His previous sanction is necessary before introducing a number of measures in the legislature. He can veto a bill already passed and can create laws by ordinances without consulting the legislature. The Act of 1919 seems to endow him with more power than was ever contemplated by previous Acts.

II. Governor-General's Executive Council.

✓ The Governor-General's Executive Council as originally constituted by the Regulating Act of 1773 consisted of four members appointed by the Directors. At present the mem-

bers are appointed by the Crown, acting on the advice of the Secretary of State, and usually hold office for a period of five years. The Act of 1919 fixed the number at eight including the Viceroy and the Commander-in-Chief, the latter being an extra-ordinary member. Of the ordinary members *three* should be public or ex-public servants with not less than ten years' experience in the service of the Crown in India; *one* member should have legal qualifications, and *not less than three* should be Indians. "The membership of the Council is the prize which comes at the end of continuous and prolonged talented bureaucratic service"—Palande.

Present Portfolios.

In addition to the Viceroy, there are seven members of the Executive Council including the Commander-in-Chief. The latter is in charge of the Army Portfolio and draws a salary of Rs. 1 lakh a year. The other Portfolios are (1) Home; (2) Law; (3) Finance; (4) Industries and Labour; (5) Railways, Commerce and Ecclesiastical, and (6) Education, Health and Lands. Each member draws a salary of Rs. 80,000 a year.

The Governor-General in Council.

HIS POWERS. The Governor-General is *to abide by the decision of the majority of his Council* in ordinary circumstances but on such matters as in the Governor-General's opinion concern "*the safety, tranquillity, or interests of British India*" he can override his Council.

HIS RELATIONS WITH HIS COUNCIL. *Originally, the Council of the Governor-General worked together as a Board, and decided all questions by a majority of votes.* As a result, Warren Hastings found himself continually thwarted by his Council. Lord Cornwallis' insistence for

enlarged powers resulted in the *conferment of powers on the Governor-General to override his Council*. This power has, however, rarely been exercised except once by Lord Lytton. In essence therefore, *the Government of India is conducted 'not by an individual, but by a Committee.'* No important act can be undertaken without an assent of a majority of that Committee except on such matters as in the Governor-General's opinion concern "the safety, tranquillity, or interests of British India."

Procedure in the Viceroy's Council.

The Governor-General himself is the President of his Council. He appoints one of the members as Vice-President who acts as President in his absence. The Council usually meets once a week and the proceedings are private. Minor matters are finally disposed of by the member in charge of the department. "*All important question, and specially those in which two Departments fail to come to an agreement or a local government has to be over-ruled, are referred to the Viceroy.*" He may himself pass orders in respect of such cases, or may refer them to the whole Council. Any matter of major importance shall be submitted by the member in charge of a Department to the Governor-General with the orders proposed by him. Secretaries to the Government of India may also refer such major cases to the Governor-General. In case of a difference of opinion in the Council, the vote of the majority prevails but in special cases the Governor-General can over-ride the Council. The Viceroy has a casting vote.

III. The Governor-General and the Secretary of State.

The Secretary of State is in a pre-eminent degree supreme, and that the Government of India and the Governor-General, notwithstanding their specific statutory rights and duties are in a much more dependent and subordinate position than would seem to be the case upon a superficial examination.

"To maintain the control of the Secretary of State under the present circumstances must appreciably affect the prestige of the

Government of India, the respect that it should command, and its utility in the eyes of the Legislature and the general public. But to take away the control of the Secretary of State before making the G. G. responsible to the legislature can only lead to an increase in the irresponsibility and autocracy of the Government of India and, as a result, to collisions between it and the Legislatures, which are bound seriously to affect the working of the machinery.”—*Indian Constitution* (Tej Bahadur Sapru).

IV. The Departmental System.

For the convenient transaction of the steadily increasing volume of business, Lord Canning first assigned to each member of his Council the charge of a department. Ordinarily he was to be its responsible chief. Referring to the departmental system introduced by Lord Canning, Sir John Strachey thus said :—“*The members of Council are more virtually cabinet ministers, each of whom has charge of one of the great departments of the Government.*”

The Chief Executive Departments.

(1) *Foreign and Political Department.*—It deals with questions relating to external politics, frontier tribes and Native States in India. *The Viceroy himself is in charge of this department.*

(2) *The Home Department.*—It deals with all business connected with the general internal administration of British India in matters affecting the Indian Civil Service, internal politics, law and justice, jails, police. As most of the subjects have been delegated to provincial governments, the work of the Department amounts to a large extent to the work of supervision, direction and control.

(3) *The Legislative Department.*—The member in charge is known as the Law Member. He presides or at least takes part in the deliberations of all Select Committees of the central legislature. The chief functions of this department are to prepare the drafts of all government bills, advise government on all legal matters, etc.

(4) *The Department of Railways and Commerce.*—It deals with all work connected with railways, shipping, trade and commerce, including tariffs, import and export regulations, statistics, life insurance and actuarial work.

(5) *The Department of Industries and Labour.*—It is connected with labour legislation, inter-provincial migration, Factories Act,

International Labour Organization, patents, designs and copyrights, stores, geology and minerals, printing and stationery, civil aviation, meteorology, developments of industries, Posts and Telegraphs, Public Works, Irrigation, etc.

(6) *The Department of Education, Health and Lands.*—It deals with education, land revenue, civil veterinary, agriculture, forests, central research on above subjects, botanical survey, famine, control of food-stuffs, external emigration, Survey of India, Medical Services and Public Health, Zoology, local self-government, libraries and records, archæology and museums.

(7) *The Finance Department.*—It is in charge of the Finance Member. It deals with the general administration of central finance, supervises provincial finance to an extent, deals with questions of salaries, leave and pensions, auditing and accounts, currency, banking, exchange, Mints and the Public Debt of India. A separate branch of this Department deals with Military Finance. Subjects like customs, salt, opium, excise and stamps are administered by a Board of Revenue working as a part of the Department. The Finance Member is the guardian of public revenue. He presents the annual financial statement known as the Budget.

(8) *The Army Department.*—It deals with all business connected with the administration of the Army, the formulation and execution of the military policy of the Government of India, the responsibility for maintaining every branch of the Army in a state of efficiency and the supreme direction of any military operations based upon India. By custom, the Commander-in-Chief is the Army member of the Viceroy's Executive Council.

Secretariat Officials.

A member presides over each Department and is assisted by a Secretary, one Under-Secretary and an assistant Secretary. The Secretaries are all members of the Indian Civil Service.

THE ELEVATED POSITION OF A DEPARTMENTAL SECRETARY.

The office of the Secretary is very important. He is recruited from the Indian Civil Service, is generally a member of either House of the Legislature and is appointed to the department generally for

a term of three years. It is the duty of the Secretary to place every case before the Governor-General or the member in charge of his department in a form in which it is ready for decision along with his own opinion.

He attends Executive Council meetings when any matter relating to his department is discussed. He attends upon the Governor-General once a week to discuss with him matters of special importance. Though he is subordinate to the member in charge of the department he may choose to have *direct access* to the Governor-General and can obtain his orders direct. It is so because the Secretary is not attached to the member but to the Government of India. In case of his disagreement with the member, he can exercise the right of laying the matter before the Governor-General. *The Indian Secretary's position is more elevated than that of the permanent Under-Secretary in England* who has no right to attend Cabinet meetings nor has any access to the Prime Minister.

Exercises.

1. Describe the powers of Governor-General of India (Cal. 1936).
2. Describe the composition and functions of the Executive Council of the Governor-General (Cal. 1935).

CHAPTER IX.

THE FEDERAL LEGISLATURE.

(Under the Act of 1935).

The Federal Legislature.

The Federal Legislature shall consist (1) of His Majesty, represented by the Governor-General, and two Chambers, to be known respectively (2) as the Council of State and (3) the House of Assembly (the Federal Assembly).

A. Composition of the Council of State.

The Council of State shall have a total membership of 260 of whom 156 shall be representatives of British India and *not more than* 104 shall represent the Indian States.

Of the 156 seats to be filled by representatives of British India, 150 seats are to be elected on the basis of communal electorates. The remaining six are to be nominated by the Governor-General at his discretion. There are 75 general seats; 49 for Mahomedans, 4 for Sikhs, 6 for the scheduled castes, 6 for women, one for Anglo-Indians, 7 for Europeans, and 2 for Indian Christians.

Members from British India are to be elected *directly* from the various constituencies in the Provinces as it is to-day. For the Anglo-Indian, European and Indian Christian communities the indirect system of election through their representatives in the Provincial Councils and Assemblies are retained. The seats allotted to the States shall be filled by nomination by the Rulers concerned. The number of

seats that are to be allocated to each State would depend on the relative rank and importance of the State as indicated by the dynastic salute and other factors, such as size and population.

Hyderabad will have five seats while Mysore, Kashmir, Gwalior and Baroda, the other twenty-one-gun states, will have three seats each. The smaller states are to be divided into several groups and a State from each group is to get representation in turn.

Tenure.

The Council of State is to be a permanent body not subject to dissolution, but as near as may be, one-third of its members are to retire every three years.

B. Composition : House of Assembly, the Lower House.

The House of Assembly, which is the Lower House, is to consist of 375 members, of whom 250 are to represent British India and not more than 125 to represent the Indian States. Every House of Assembly unless sooner dissolved, is to continue for five years.

Thus the Indian States which do not contain even one-fourth of the population of British India will get one-third the number of seats.

The Assembly is to meet once a year. The Governor-General may summon, prorogue, or dissolve it at his discretion.

Of the 250 seats allotted to British India only 105 are general seats, 19 for the Depressed classes,† 6 for Sikhs, 4 for Anglo-Indians, 8 for Europeans, 8 for Indian Christians, 82 for Mahomedans, 1 for Commerce, 10 for Labour, 7 for Landlords, and 9 for women.

† The Depressed classes through a system of separate electorate are to choose a panel of four candidates for each seat. Then out of this four a representative is to be finally elected by the general Hindu electorate.

The seats allotted to British Indian Provinces shall be filled up by a system of *indirect election** by members of the Provincial Assemblies. The seats allotted to the States shall be filled by nomination of the Rulers concerned.

A President and a Speaker.

The Council of State and the House of Assembly are to choose from among their members a *President* and a *Speaker* respectively to preside over those Chambers. There shall be a *Deputy-President* and a *Deputy-Speaker* for the respective Chambers, who are to perform the functions of the President and the Speaker when they are absent or the offices are vacant. The President and the Speaker are to vacate their offices as soon as they cease to be members of the Chambers over which they preside. They may at any time resign by sending in their resignations to the Governor-General. They may be removed from their offices by a resolution of the Council or the Assembly, as the case may be, by a majority of its sitting members.

The President or the Speaker shall not vote in the first instance but shall exercise a casting vote in the case of a tie (*i.e.*, on equality of votes both for and against a resolution). They are to be paid salaries as fixed by the Act of the Federation.

* **INDIRECT ELECTION.**—The arguments put forward in favour of indirect elections are:—(1) Huge size of constituencies; (2) widespread illiteracy making it impossible for a candidate to appeal to the voters; (3) enormous expense which a direct system of election would involve; and (4) difficulties of communication which make contact of intending candidates for election with voters impossible.

The White Paper recommended direct election for the Assembly but the Joint Parliamentary Committee reversed the proposal.

QUORUM, OATH AND VACATION OF SEATS.

One-sixth of the total number of members of a Chamber of the Legislature would form the *quorum*. In the absence of a quorum, the President or the Speaker is either to adjourn or suspend the meeting until at least one-sixth of the members are present. Every member of either Chamber shall take on *oath* in the prescribed form.

A member will be deemed to have *vacated* his seat (1) when he has incurred any disqualification; (2) has resigned his seat; and (3) has been absent for sixty days without permission of the Chamber.

Membership qualifications.

No person is to be deemed qualified to represent any part of British India in the Federal Legislature unless he—

(1) is a British subject, or the Ruler or a subject of an Indian State which has acceded to the Federation;

(2) is, in the case of a seat in the Council of State, *not less than thirty years of age*, and in the case of a seat in the Federal Assembly, *not less than twenty-five years of age*.

No person is to be appointed as a representative of a State in either Chamber of the Federal Legislature unless he—

(1) is a British subject, or the Ruler, or a subject of an Indian State which has acceded to the Federation; and

(2) is, in the case of a seat in the Council of State, *not less than thirty years of age* and in the case of a seat in the Federal Assembly, *not less than twenty-five years of age*. Restrictions for age are not to apply to a Ruler who is exercising ruling powers.

Disqualifications of members.

(1) A person shall be disqualified for being a member of either Chamber—

- (a) If he holds any office of profit under the Crown in India;
- (b) if he is of unsound mind; (c) if he is an undischarged insolvent;
- (d) if he has been convicted or found guilty of any offence or

corrupt practices relating to elections and the period of his suspension is not over ; (e) if he has been convicted of any other offence and sentenced to transportation or to imprisonment for not less than two years ; (f) or has failed to lodge a return of election expenses ; or is serving a sentence of transportation or of imprisonment for a criminal offence.

Privileges of members.

(1) There shall be *freedom of speech* in the Legislature subject to the rules and standing orders. No member shall be punished for anything said or any vote given by him in the Legislature, or for publication by order of either Chamber of any report, paper, votes or proceedings.

(2) They shall enjoy all the privileges which were enjoyed by members of the Indian Legislature before the establishment of the Federation.

(3) Members of either Chamber shall be entitled to receive such salaries and allowances as may from time to time be determined by an Act of the Federal Legislature.

RESTRICTIONS ON THE FREEDOM OF SPEECH.

The Act follows the principles of the British Constitution in providing for freedom of speech in the Legislature. Two constitutional restrictions are placed on this privilege. First, no discussion is to take place in the Federal Legislature with respect to the conduct of any judge of the Federal Court or a High Court in the discharge of his duties. Secondly, if the Governor-General, in his discretion, certifies that "the discussion of a Bill would affect the discharge of his special responsibility for the prevention of any grave menace to the peace or tranquillity of India, he may direct that no discussion shall be allowed in relation to that Bill."—*Eddy and Lawton*.

Powers of the Federal Legislature.

I. LEGISLATIVE POWERS.

These powers are embodied in Secs. 99-110 of the Act. Subject to these provisions, the Federal Legislature has plenary powers to legislate for the whole or any part of British India or any Federated State. The Secs. provide—

(a) The federal legislature has exclusive authority to legislate on matters of common national concern, known as *Federal List*. (b) It as well as provincial legislatures have the power to make laws on subjects included in the *Concurrent List*, subject to the condition that in cases of conflict between the Federal Law and the Provincial Law, *the federal law will prevail*. (c) The federal legislature has power to make laws with respect to any matter enumerated in the *Provincial Legislative List* except for a province or any part thereof. (d) It has the power to legislate for the *federal states* in accordance with the terms and conditions of the Instruments of Accession of particular states. And in this respect if there is a conflict between a state law and a federal law, the federal law shall prevail. (e) In case of a grave emergency whereby the security of India is threatened whether by war or by internal disturbance, the legislature with the previous sanction of the Governor-General has the power to legislate with respect to any matter included in the Provincial List. Such laws will cease to operate after six months unless approved in the meantime by both Houses of Parliament. (f) On the request of two or more provinces, the Federal Legislature can pass common legislation relating to purely provincial matter. But the provincial legislatures shall have the right to amend or repeal such federal legislation. (g) It will have the power to legislate on any residual subject not provided in the three lists when directed to do so by the Governor-General in his discretion. (h) It may pass an Act for the maintenance of discipline in the India's naval forces. (i) It can with the previous sanction of the Governor-General legislate for giving effect to international agreements.

RESTRICTIONS BY THE G. G. ON LEGISLATIVE LIST.

1. Absolute prohibition (Sec. 110. Read G. G.'s *Financial Powers*).
2. Previous sanction (Sec. 108).
3. Discretionary Legislation (Secs. 111-116, 119 and 120).
4. The overwhelming powers of the Governor-General—to stop proceedings, to certify, to veto, to exercise his special responsibility, etc.

II. FORMULATION OF NATIONAL POLICY.

Though it has not been provided by express terms, it may be deduced from the provision of the (a) ministerial responsibility to the federal legislature, and (b) control of the federal legislature over federal finances, etc. But really speaking, the responsibility and control referred to is a myth.

III. FINANCIAL POWERS.

The Federal Assembly is granted certain powers of control over federal finance and is to vote the federal supplies. But the effective value of these powers is considerably impaired by the following factors:—

(a) Special responsibility of the Governor-General for the maintenance of the financial stability and credit of the Federation. (b) The presence of the Financial Adviser may serve as a check upon the Finance Minister rather than a help to him in discharging his responsibilities to the legislature. (c) A large part amounting to 85 per cent. of the total budget is non-votable. (d) The Governor-General will possess the power to review or authenticate any reduced or refused demand by the legislature.

IV. SUPERVISION AND CONTROL OF THE ADMINISTRATION.

Such powers are indirect instead of being direct. They comprise the right of interpellation, responsibility of the ministers to the legislature, motions for adjournment, etc.

V. RESIDUARY, OVERRIDING AND EMERGENCY POWERS.

They are confined only to the making of laws. In each case they are subject to the special permission of the Governor-General. Sec. 104 empowers the Federal Legislature to legislate on matters which are not provided in the three legislative lists. Sec. 102 provides emergency powers to legislate when the Governor-General makes a "Proclama-

tion of Emergency" declaring that the security of India is threatened by war or internal disturbance.

Legislative Procedure.

Bills, other than financial bills, shall originate in either Chamber. A bill shall be deemed to have been passed when it has been agreed to by both Chambers.

A Bill pending in the Legislature shall not lapse by reason of the prorogation of the Chambers.

• The Governor-General may summon the *joint-sitting* of both the Chambers for the purpose of passing a bill when

(1) It has been passed by one Chamber but has been rejected by the other; (2) when the Chambers have disagreed on any amendment; and (3) when for more than six months a bill is lying with a Chamber, after having been passed by the other Chamber, without being presented to the Governor-General for his assent.

If, however, it appears to the Governor-General that the Bill relates to *finance* or to *any matter* which concerns the discharge of his functions in his *discretion* or in his *individual judgment*, the Governor-General may hold the joint-session of the Chambers. The Bill would be deemed to have been passed by both Chambers, when it is passed by a majority of the total number of members of both Chambers present.

The Governor-General may adopt any one of the *four following courses* when a bill has been presented to him after being passed by both the Chambers:—

- (1) he may assent in His Majesty's name; or
- (2) he may withhold assent; or
- (3) he may reserve the Bill for the signification of His Majesty's pleasure; or

(4) he may return the *Bill* to the Chambers with a message requesting them to reconsider the Bill, or any of its provisions, or any amendment he recommends in his message.

Power is reserved to the Crown to disallow any Act assented to by the Governor-General.

The Governor-General has the right to address both the Chambers. His Ministers and Counsellors have the right to speak in both the Chambers but they cannot vote unless they are members of the legislature.

Annual Financial Statement.

The Governor-General shall cause to be laid before both Chambers of the Federal Legislature in respect of any financial year an *annual statement* of the estimated receipts and expenditure of the Federation for that year.

The estimates of expenditure embodied in the financial statement shall show separately:—

(a) the sums required to meet expenditure charged upon the revenues of the Federation; and

(b) the sums required to meet other expenditure proposed to be made from the revenues of the Federation.

The following expenditure shall be expenditure charged on the revenues of the Federation:

(1) The salary and allowances of the Governor-General and other expenditure relating to his office.

(2) Debt charges.

(3) The salaries and allowances of ministers, of counsellors, of the financial adviser, of the Advocate-General, of Chief-commissioners, and of the staff of the financial adviser;

(4) The salaries, allowances, and pensions of judges of the Federal Court, and of pensions of judges of any High Court;

- (5) Expenditure with respect to the reserved subjects ;
- (6) The sums payable to His Majesty for discharging the functions of the Crown in its relations with Indian States ;
- (7) Grants for administering any areas in a Province which are for the time being excluded areas ;
- (8) Sums required to satisfy any decree or award.
- (9) Any expenditure sanctioned by the Federal Legislature.

Heads of expenditure so charged upon the revenues of the Federation are to be submitted to the vote of the Legislature. All other estimates are to be submitted in the form of demands for grants to the Federal Assembly and thereafter to the Council of State. No demand for a grant, however, is to be made except on the recommendation of the Governor-General.

The Budget Procedure.

All estimates, other than those which are charged on the revenues of the Federation, are to be submitted in the form of demands for grants to the *Federal Assembly* and thereafter to the Council of State.

No bill for (a) imposing or increasing any tax, (b) for regulating the borrowing of money or for amending the law with respect to any financial obligations undertaken by the federal government, or (c) for declaring any expenditure to be expenditure charged on the revenues of the Federation, or for increasing its amount, is to be introduced in the Federal Assembly except on the recommendation of the Governor-General. A bill making such provisions is not to be introduced in the Council of State.

Either Chamber is to have power to assent to, or refuse, or reduce a demand. When the Assembly have *refused* a demand, that demand is not to be submitted to the Council of State unless the Governor-General so directs. When the Assembly have *reduced* a demand, a demand for the reduced amount only is to be submitted to the Council of State unless the Governor-General otherwise directs. If the Chambers

differ with respect to any demand, the Governor-General is to summon the two Chambers to meet in a joint sitting and the decision of the majority present would be deemed to be the decision of the two Chambers.

If the Chambers have not assented to a demand for a grant or have assented subject to a reduction, the Governor-General may, on grounds of due discharge of his special responsibilities, restore the reduction.

All the grants are to be put into a schedule and after it has been authenticated by the Governor-General by putting his signature into it, it is to be laid before both Chambers but is not to be open to discussion or vote.

From the above survey we find that the Chambers have been conferred *co-equal financial powers* which "is completely foreign to British Constitutional notions as to the functions of an Upper House." Again, it will be observed that on *proposals for appropriation, the Legislature*, subject to the discharge of the special responsibilities of the Governor-General, "*will have final decision*." The Joint Select Committee suggested that this power in the matter of supply will give the Legislature its real control over the Executive."

Criticism of the Federal Centre.

1. *The powers of the Governor-General are too numerous and his duties are too onerous.* Indeed, if the Governor-General has to discharge his duties and responsibilities honestly, efficiently and impartially with due regard to the interests of British India, Indian India, and Great Britain, he must possess the strength and character of a superman. Lord Zetland has well said that the new Constitution places upon the Viceroy a burden almost too great for any one man to bear. Again, Lord Rankeillour has thus nicely remarked : "to fulfil all the functions, the Viceroy will need the dignity of Lord Curzon, the versatility of Mr. Lloyd George, the firmness of Mr. Joseph Chamberlain

and the parliamentary adroitness (skill) of the late Lord Elibank." Such a combination of qualities will be rare indeed. And the result will be that the views of the Secretariat officials—the bureaucracy, will generally prevail in the decisions of the Governor-General.*

2. DYARCHY.

The Simon Commission, the White Paper, the J. P. C. Report—all came to the conclusion that dyarchy was a failure in the provinces. One wonders why in face of that finding the same system has been recommended for the Centre.

3. NO CONTROL OVER THE ARMY.

The Department of Defence is a reserved subject under the control of the Governor-General. The British Government adduces two-fold reasons why the Federal Ministry should have no control over the Defence of India. Firstly, there is no "Indian Army". The troops employed in the defence of our country are all British troops. Secondly, Indians are not yet quite fit to manage this extremely delicate and difficult department. These charges have been very ably refuted by men like Sir Sivaswamy Iyer and Prof. Keith who are of opinion that "Indianisation of the Army has been very slow because British Army circles do not favour the idea; and "Responsibility" is meaningless without the control of Defence."—*Keith*.

* The excessive powers of the Governor-General will render it most difficult for India to attain the status of a dominion within a reasonable time."—*Sir S. A. Khan*.

The vast powers conferred on the Governor-General and the Governor amount virtually to autocracy not mitigated but strengthened by the control of the Whitehall."—*Rt. Hon'ble Sastri*.

4. SAFEGUARDS OR SPECIAL RESPONSIBILITIES.

We are told by Sir Samuel Hoare, our the then Secretary of State, that the safeguards are intended to be temporary and will only last during the period of transition. But it is not stated anywhere how long will be the period of transition. Nor there is any provision for the automatic removal of the safeguards. We are further told that they have been designed in the common interests of India and Great Britain.

On a close analysis of the safeguards, we are however unable to agree with the above view of the British Government. Prof. Keith has very rightly said that these safeguards will destroy responsibility. The field of special responsibility permeates the whole administration and it is difficult to suggest any one subject (whether provincial or federal) in which it will not emerge at any moment. And as it will emerge, responsibility will be destroyed. We agree with the apprehensions of Mr. Jinnah. "Between the conditions laid down by the princes and the iron-wall of safeguards, we are nowhere. There are 98 per cent. safeguards and 2 per cent. responsibility. The Constitution at the Centre is worse than it is to-day."

5. FEDERAL LEGISLATURE.

(a) The provision of indirect election specially in the Lower House is a negation of democratic principles. Moreover, it would lead to bribery and corruption.

(b) Again, the co-equal powers of the two Houses will lead to frequent deadlocks. Moreover, it is also against the principle of sound Parliamentary Government which demands that the Lower House which represents the people should have greater powers than the Upper House.

(c) Thirdly, the system of communal representation and reservation of seats will divide the people into hostile groups and camps thereby preventing the development of democratic institutions in this country.*

(d) Finally, the restrictions in the legislative powers of the federal legislature are wide and far-reaching. (1) In certain matters the legislature has been prohibited from entertaining any measure without the previous sanction of the Governor-General. (2) In certain other matters the legislature has been definitely prohibited from passing a measure under any condition (*viz.*, discriminating legislation). (3) The Governor-General may veto or pass laws and ordinances over the head of the legislature. (4) Lastly, the Federal Legislature will have very little control over the Federal Budget in as much as 85 per cent. of it is non-votable.

* "The Legislature is so curiously composed and its procedure is so ingeniously contrived that it is difficult to function freely and independently. It will be destitute of organic unity, will lack the momentum of a common allegiance and national solidarity and may resolve itself into a congeries of destructive and inconsistent elements."
—Sir S. A. Khan.

CHAPTER X.

SOME FEATURES OF THE FEDERAL CONSTITUTION.

I. The Dominion Status.

The Government of India Act of 1935 has no preamble. It is omitted deliberately. A preamble would have meant the acceptance of the goal of a Dominion Status, a more progressive ideal than has been vouchsafed by the Declaration of August 20th, 1917. England is unwilling to commit herself, though repeated promises* for a Dominion Status have been given by His Majesty, by the Viceroy and by the Secretary of State for India. The Government of India Act of 1919 has been repealed but the Preamble stands. Sir Samuel Hoare, the then Secretary of State for India, announced his empty hoax thus: "We stand firmly by the pledge contained in the 1919 Preamble, which has been interpreted by the Viceroy in 1929, on the authority of the Government of the day, that 'the natural issue of India's progress is the attainment of Dominion Status.' If the Preamble means as much what is the necessity to enshrine in an Act words and pledges." So India must go satisfied with the Preamble of 1919 as the goal of her future constitutional advance. Further, the British diehards point out that the 'Dominion Status' of 1929 is not the 'Dominion Status' as defined by the Statute of Westminster. The Statute was enacted two years later, in 1931. So India should not put so much stress on Dominion Status as interpreted by Lord Irwin, the Viceroy, in 1929.

* Promises were given by Mr. Winston Churchill, Lord Irwin, Ramsay Macdonald and others.

This is simply exasperating. The Indian Legislative Assembly have rejected the Reforms by a Resolution. The Congress have rejected it in toto while the Moslem League have declared it as totally unacceptable.*

II. The Federal Idea.

The geographical unity, on the one hand, and the diversities of race, creed, language, religion, historical traditions, and social and political life favour the organization of a federal type of government.

The system of governmental organization in India has long been of a federal type. Decentralisation and devolution have gone apace. Local governments have been conferred greater and greater autonomy. The policy of financial decentralisation has developed a system of finance which is suited to a federal form of government. Finally, the system of dyarchy in the Provinces has been the precursor of a British Indian Federation.

The Montague-Chelmsford Report first visualized a 'sisterhood of self-governing states presided over by a central government representative of and responsible to the people of India.' The Nehru Report and the Simon Commission have also stressed on the idea of an All-India Federation.

In the Round Table Conference, however, the ideal of a Federation was unanimously accepted though the motives leading to it were diametrically opposite. Britain wanted it to postpone the conferment of real responsible government, the Princes wanted it under pressure of the Imperial Government and also to escape the dictations of the Political Agents, while Indian politicians wanted it to secure the emancipation of the States' subjects. Though for the time being a federation is expected to give a new lease of life (for at least another quarter of a century) to the present state of political imbecility, it is, however, fraught with great future potentialities.

* It is fundamentally bad, reactionary, retrograde, injurious and fatal to the vital interests of British India as well as of the Indian States and is calculated to thwart, and delay indefinitely the realisation of India's most cherished goal of complete responsible government.

III. A Singular type of Federation.

Character of Indian Federation.

What is the characteristic of a true federation? A true federation is (a) a *perpetual union* of a number of once sovereign states, and any attempt at separation by a constituent state is to be construed as a rebellion. (b) Such unions commonly take place through a treaty between the component states, or are based upon some historical antecedents common to them all. (c) Such a constitution is to be accepted by all the citizens.

The Indian Federation has, however, been conceived on a novel idea. The Joint Committee has thus defined the Federation:—"It is simply the method by which a number of governments, autonomous in their own spheres, are combined in a single state. *The central or federal executive need not be responsible to the federal legislature.*"

On analysis the Indian federation is found to be composed of conflicting elements. The units are composed of Indian provinces and Indian States, the former having parliamentary and the latter autocratic forms of government.* This unseemly combination has led to the following anomalies:—

(i) 'While the provinces combine voluntarily, the States have been left to their discretion and will; (ii) as the States are included in the federation, the executive must retain full powers to protect them and so cannot be made responsible to the legislature; (iii) the principle of co-ordinate powers of the two houses has been emphasized and in practice adopted—a policy which undermines the people's house; (iv) a constituent State may not allow the Federal Legislature

* Mr. Lees Smith states:—"The Indian Federal system will be of a kind hitherto unknown. The Government of one part of the Federation will be based upon Parliamentary principles, that of the other on oriental absolutism."

to apply its laws concerning a particular subject if it has not stipulated to accept it at the time of joining the Federation; (*v*) the Indian States do not surrender their internal sovereignty as well as rights which are based upon treaty relations with the Paramount power; (*iv*) the federation is not to exercise any authority upon the State's subjects; (*vii*) representatives to the federal legislature are to be elected while the representatives of States are to be nominated by the Rulers of the respective States; (*viii*) the Princes have been given representation disproportionate to their population.

In short, the Indian Federation runs counter to the basic principles of a true responsible system of government.* Indian political leaders, perhaps, have welcomed the federation in the hope, to quote the words of Jam Saheb, "that the states would disappear within two decades of the establishment of the Federation." The Indian Rulers, on the other hand, have swallowed the bitter pill partly through pressure and persuasion of the Imperial government, and partly through their aversion to submit to the control of the Political Agent. The British statesmen, no doubt waxed eloquent over it in the sweet hope that it would give a new lease to the present state of things at least for another quarter of a century.

THE WAR AND CONSTITUTIONAL PROGRESS.

The demand of the Congress for a Constitutional Assembly to devise the constitution of a free India has thus been met half-way by the announcement of the Viceroy on the 7th of August, 1940:—

"His Majesty's Government's objective is Dominion Status for India. A certain number of representative Indians will be invited to join my Executive Council. A War Advisory Council is to be established which would contain representatives of the Indian States

* Prof. A. B. Keith affirms:—"The system of construction of the Federation is quite indefensible. I would have admitted the Princes only on condition that they gave their States constitutions leading up to responsible government, and that their representatives in both houses of the Central Legislature were elected by the people of the States."

and of other interests in the national life of India as a whole. His Majesty's Government will most readily assent to the setting up after the conclusions of the war with the least possible delay of a body representative of the principal elements in order to devise the framework of the new constitution and they will lend every aid in their power to hasten decision on all relevant matters to the utmost degree. Meanwhile they will welcome and promote in any way possible every sincere and practical step that may be taken by representative Indians themselves to reach a basis of friendly agreement, firstly, on the form which the post-war representative body should take, and the methods by which it should arrive at its conclusions, and secondly, upon the principles and outlines of the constitution itself.

Full weight should be given to the views of the minorities in any revision. It goes without saying that His Majesty's Government could not contemplate the transfer of their present responsibilities for the peace and welfare of India to any system of government whose authority is directly denied by large and powerful elements in India's national life. Nor could they be parties to the coercion of such elements into submission to such a government."

The Congress, the League and the Mahasabha have all rejected the overtures.

CHAPTER XI.

The Legislature.

I. The Indian Legislature.

THE CENTRAL GOVERNMENT.

(Under the Act of 1919).

By the act of 1919, the *Indian legislature* consists of the Governor-General and two Chambers, the *Council of State*—the upper Chamber, and the *Legislative Assembly*, the lower chamber. Ordinarily, no bill can be deemed to have been passed unless it has been agreed to by both chambers and received the final signature of the Governor-General.

Constitutional Position of the Indian Legislature.

The Indian Legislature is a non-sovereign law-making body subordinate to the British Parliament. The latter has delegated its authority to the former in so far as internal affairs of India are concerned. The Indian Legislature is, however, restricted in its powers in various ways. It has to please at least three masters. *It cannot pass any law repugnant to the authority of Parliament: it must secure the consent of the Secretary of State before proposing any new legislation: all laws passed by the Legislature is merely recommendatory to the Viceroy, the Chief Executive, and can be modified or rejected by him. So the Indian Legislature is often called a mock law-making body.*

(a) The Council of State.

The maximum number of members for the Council of State, the Upper Chamber, is sixty. The number of official members cannot exceed twenty. As at present constituted, it consists of 34 elected, 6 nominated non-official and 20 officials. The purpose of creating this chamber was to develop a body of Elder Statesmen who were always to

support and "to assist the *government* in matters regarded as essential."

(b) The Legislative Assembly.

The duration of its life extends to *three years*. But the Governor-General can extend or shorten its life. It is curious that in Canada, Australia and South Africa, the Governor-General can dissolve but cannot extend the life of the House. Within six months after a dissolution, with the sanction of the Secretary of State, the Governor-General is bound to fix a date for the next session of the House.

It consists of 144 members, of whom 103 are elected, and of the 41 nominated members, 26 are officials. It is to be noted that there is nowhere any lower house of the legislature where the system of nomination obtains.

The Distribution of Seats are as follows:—Bengal 17, Bombay, Madras, and the United Provinces 16 each; the Punjab and Bihar and Orissa, 12 each; the Central Provinces, 5; Assam and Burma, 4 each; and Delhi, 1.

Of the above 104 elected members, Non-Mahomedans number 47, Mahomedans 30, Europeans 9, Landholders 7, Indian Commerce 4, Sikh 2, Non-Europeans 3, and General 2.

So it is clear that representation obtains for *special* interests and on a *communal* basis. Moreover, representatives of different communities are elected through a *separate electorate* and by the *reservation* of seats,—each community electing a fixed number of its own representatives.

The Governor-General is not a member of the Assembly or the Council of State, but has the right to summon, address and to prorogue a session. The first President was appointed by the Governor-General but thereafter the office has been filled by the Assembly from among its members. A Deputy President is also elected by the Assembly. Elections of both the President and the Deputy President require the sanction of the Governor-General.

II. Powers of the Indian Legislature.

The test of a responsible government is (a) that the legislature possesses unrestricted power of making laws, (b) that it has full control over the public purse, i.e., the finances, (c) and that the executive is thoroughly responsible to it.*

The Indian legislature controls the executive and its administration in various ways: (1) By a resolution the legislature can unambiguously and emphatically declare the views of the elected representatives of the people; (2) by moving *adjournment motions* the attention of the government may be drawn to any extraordinary happening affecting public welfare and interest. If the government opposes the adjournment motion and it is not talked out but passed by a majority, then it amounts to a vote of censure upon the government. (3) *Interpellations*, i.e., the right of asking questions and supplementary questions keeps the executive in *constant fear of the popular will*. (4) *Vote of censure*. In extreme cases when the government is found to be incorrigible a vote of censure may be proposed and passed against the government.

A. Law-making Powers.

The Indian Legislature is empowered to make laws:—

(1) For all persons, for all courts, and for all places and things *within British India*;

(2) For all objects of His Majesty and servants of the Crown *within other parts of India*;

(3) For all native Indian subjects of His Majesty, *without and beyond as well as within British India*;

(4) For the Government officers, soldiers, airmen, and followers in *His Majesty's Indian forces*;

(5) For all persons employed in the *Royal Indian Marine Service*; and

(6) For repealing or altering any laws which for the time being are in force in any part of British India.

* The more complete the subordination of the Executive, the greater is the advance in the direction of responsibility."—Palande (p. 108).

Limitations upon Legislative Powers.

1. *The Indian Legislature cannot make, or repeal a law affecting the following, unless expressly authorised by an Act of Parliament :*

(1) *Any Act of Parliament passed after 1860 and extending to British India ; or*

(2) *Any Act of Parliament enabling the Secretary of State to raise money in the United Kingdom for India.*

(3) *Nor can it make any law affecting the written Constitution of Great Britain, or affecting the Sovereignty or the dominion of the Crown over any part of British India.*

(4) *Nor has the Indian Legislature power, without the previous approval of the Secretary of State in Council, to make any law empowering any Court other than a High Court to pass a sentence of death on any of His Majesty's subjects, or abolishing any High Court.*

II. *The previous sanction of the Governor-General is necessary for the introduction of any measure affecting—*

(a) *the public debt or public revenue of India or imposing any charge on the revenues of India ; or*

(b) *the religion or religious rites and usages of any class of British subjects in India ; or*

(c) *the discipline or maintenance of any part of His Majesty's military, naval or air forces ; or*

(d) *the relations of the Government with foreign princes or states ;*

(e) *regulating any provincial subject or any part of a provincial subject which has not been declared to be subject to legislation by the Indian Legislature ; or*

(f) *repealing or amending any Act of a Local Legislature ; or*

(g) *repealing or amending any Act or Ordinance made by the Governor-General.*

III. *The Governor-General's power of Interfering with Legislation : he can Stop, can Withhold Assent or Reserve, and can Veto.*

The Governor-General can stop the proceedings on a bill in either Chamber by certification on the ground that the Bill or any clause of it affects the safety or tranquillity of British India.

A Bill passed by both the Chambers *may not be assented to* by the Governor-General *or may be reserved* for the signification of His Majesty's pleasure thereon. He may also *send back a bill* so passed for reconsideration by either Chamber. Further, a Bill assented to by the Governor-General may be disallowed by His Majesty.

IV. Extraordinary Powers of the Governor-General over Legislation: Certification and Signature.

In the event of *either* Chamber refusing to introduce or to pass a Bill in a form recommended by the Governor-General, the latter may certify that its passage is essential for the safety, tranquillity or interests of British India, and on the *other* Chamber passing that Bill it will become an Act with Governor-General's signature in spite of the fact that it has not been agreed to by both Chambers. In the event the *other* Chamber does not consent to such a Bill, with the signature of the Governor-General it will become an Act.

Every such Act must be laid down before both Houses of Parliament for at least eight days and must receive the consent of His Majesty. On *grounds of emergency* an act may be made to operate immediately subject to disallowance by His Majesty in Council.

B. Restrictions on the Financial Powers of the Legislature.

THE BUDGET.

The Governor-General's power in regard to the Budget calls for special attention. The annual estimates of revenue and expenditure embodied in a statement which is placed before each Chamber for the Indian Legislature is known as the *Budget*. "It is to the Assembly, however, that the demands for grants are submitted and it is the Assembly which can grant or withhold."*

(1) THE VICEROY SHOULD RECOMMEND ALL EXPENDITURE.

No proposal of any expenditure of public revenue can be made by any member save on the *recommendation* of the Governor-

* *Lahiri and Banerjee*, p. 75.

General. Proposals to omit or reduce a grant can be made by members. But no proposal to introduce a new grant can be made. The practice is in consonance with the British House of Commons.

(2) NON-VOTABLE HEADS OF EXPENDITURE.

Unless the Governor-General otherwise *directs*, the following heads of expenditure shall not be submitted to the vote of the Legislative Assembly, nor shall they be open to discussion :—

- (1) Interest and sinking fund charges on loans ;
- (2) Expenditure of which the amount is prescribed by or under any law ;
- (3) Salaries and pensions of persons appointed by or with the approval of His Majesty or by the Secretary of State in Council ;
- (4) Salaries of Chief Commissioners and Judicial Commissioners ; and
- (5) Expenditure classified by the order of the Governor-General in Council, as
 - (a) Ecclesiastical ;
 - (b) Political ; and
 - (c) Defence.

In case of any doubt as to whether any proposed expenditure relates to any of the above non-votable or protected heads, the Governor-General's decision is final.

(3) THE GOVERNOR-GENERAL CAN RESTORE REFUSED DEMANDS.

Proposals for all appropriation (votable heads) of revenue are usually made in the form of demands for grants. If any demand is refused altogether, or a portion of such demand is refused, the Governor-General in Council may restore it, provided he is satisfied that it is essential to the discharge of his responsibility. In times of emergency, he can authorize such expenditure as may be necessary for the safety or tranquillity of British India.

(4) VICEROY CAN RAISE ALL REVENUES.

The proposals for taxation are embodied in a bill known as the Money Bill. Even when such a bill is refused wholly or in part by the legislature, the Viceroy can restore it by his power of certification.

III. Powers of the Houses.

Co-ordinate powers of the two Houses.

"The powers, functions and political Status of the two Houses are not identical. They have been formed to fulfil different purposes and embody different ideals. The Upper Chamber is intended mainly to represent the vested interest and the wealth of the land. The lower Chamber is more representative and democratic in its structure and so it is usually vested with greater political power and control. The Upper Chamber is intended to amend and revise."—Palande.

No Control over the Executive.

Instead of the Indian Legislature having control over the Executive, it is rather subservient to it. The Executive is responsible to the Secretary of State. He is not elected by the Legislature. The power of criticism and the privilege of asking questions can not keep an executive in appreciable restraint.

IV. Privileges of the Indian Legislature.

A member does not get any salary but he receives "travelling and halting" allowances for attendance at the meetings of the legislative houses.

He enjoys *freedom of speech* and is not liable to any proceedings in any court for his speech. But he is liable to be 'called to order and may even be censured for using unparliamentary expressions.' Moreover, a member cannot refer to any matter which is *sub judice*, nor can he reflect on the conduct of the King, or Governor, nor can he make a personal attack upon a member. He is also forbidden to utter treasonable, seditious or defamatory words.

An actionable speech delivered in the legislature may not bring a member within the jurisdiction of the Court, but such a speech privately (not in case of an official publication) published will not protect a member from being legally dealt with in a court of law.

V. Procedure in the Legislature.

The Governor-General appoints the date and place for a session of each Chamber. He prorogues the Chamber. Unlike in Great Britain, Bills already introduced do not lapse, which is technically known as the 'slaughter of the innocents,' with a prorogation but are carried over to the next session. Each Chamber sits usually between 11 a.m. and 4 p.m.

Twenty-five members form a quorum in the Legislative Assembly, while 15 is the number for the Council of State.

Votes are taken by voices, and the President decides according as the 'ayes' or 'noes' preponderate. But if his opinion is challenged and a division is wanted by a member, he orders a division. The members file on to two different lobbies and the President finally announces the result which cannot be further challenged.

A *closure* of the debate may be put on the motion of a member who may move 'that the question be now put'. If such a motion is carried, the debate is closed and the original motion under discussion is forthwith put to the vote without further amendment or vote.

The first hour of every meeting of either Chamber is allotted to the asking and answering of questions on matters of public concern. Questions relating to foreign affairs, relations with Indian princes and matters *sub judice* are not allowed. The President of either House is to decide whether a question is to be accepted or disallowed.

A *motion for adjournment* is the device through which a department of the Government may be criticized or even censured for any act of omission or commission. If the President is satisfied about the definiteness, urgency and public importance of the motion for adjournment and is assured that the leave has been granted by the House at least by the number of members which is necessary for a quorum, he fixes the hour, usually 4 p.m., when it will be taken up. If at the appointed hour the motion, "That the Assembly, or the Council of State, do now adjourn," is carried, it amounts to a vote of censure. If the debate continues till 6 p.m., the motion automatically lapses.

Procedure of a Bill.

A Bill may be introduced in either of the Houses. In case of a Bill to be introduced by a private member, one month's notice is to be given along with a copy of the Bill and a copy of the sanction

of the Governor-General if such is necessary for the Bill under the constitution. If the motion to introduce a Bill is accepted by a majority, it is to be published in the Gazette. The Governor-General may in some cases direct the publication without the procedure enumerated beforehand. On grounds of safety and tranquillity he can in other cases drop the further proceedings of a Bill.

First stage. When a Bill has been accepted and introduced the member in charge may move for its consideration immediately or on a future date, or for its reference to a Select Committee or for its circulation with the purpose of eliciting public opinion. At this stage only the principle and general provisions may be discussed.

Second stage. In the Select Committee the Bill is gone through clause by clause and may be amended. The Committee may consult experts and finally submit a report. If the Bill is materially altered then a republication may be recommended.

Third stage. The member in charge of the Bill presents the Report to the House. Then he may move for its consideration by the House or for re-circulation. In the former case any member or members may propose amendments. If the amendments are not passed, the member in charge may move that the Bill be passed. In the opposite case a subsequent date is fixed for passing the Bill. When a Bill is passed by a House, the President signs a copy thereof.

CONFLICTS BETWEEN THE TWO CHAMBERS.—After a Bill has been passed by the originating House, it is sent to the other House and requires to be simply passed. If the other House passes the Bill with amendments which the originating House is not willing to accept, the latter may allow the Bill to lapse or may *report the fact of disagreement to the Governor-General* who may refer the matter for decision to a joint sitting of both Houses convened by him. The President of the Council of State would preside at such a joint sitting. A majority of votes is required to pass the Bill or any amendments and the Bill will then be deemed to have been duly passed by both the Houses.

Another method of composing difference between two Houses is through Joint Committees which may be formed by each House nominating an equal number of members.

Final stage. Ultimately all Bills require the assent of the Governor-General or of His Majesty in Council, as the case may be.

STANDING COMMITTEES.

STANDING COMMITTEES.—Standing Committees are formed from among members of the Assembly. They are attached to certain departments of Government for consultative and advisory purposes. The more important of them are on Finance and on Public Accounts, presided over by the Finance member in both cases. The former Committee make “jealous, detailed and enthusiastic” scrutiny of all new items of votable expenditure and make recommendations to the Assembly, when necessary.

Political Parties in India.

We may divide political parties in India into two main parties, *the Congressites and the Non-Congressites*, the latter including a medley of parties, the Ministerialists or Coalitionists, the Liberals, the Independents, the Nationalists, the Responsivists, League party, Hindu Sabhaites, etc. The Swarajists represent the Congress and are considered both inside and outside the legislature, and by the Government as well, as the best organized and most well-disciplined party. With their withdrawal from the legislatures on the eve of the Civil Disobedience Movement, party opposition in India did sink into insignificance and the Government has been uniformly successful in rushing through the legislature the most reactionary measures it could ever contemplate. Later on, the Congress did enter the legislature. Though the Congress is still nominally in the Central Legislature, it has resigned from the provincial legislatures. The creation of the “Forward Block” is undermining the prestige of the Congress.

QUESTIONS.

1. Describe the constitution and functions of the Central Legislature in India (1926).
2. Describe the stages through which a bill must pass before it becomes an Act of a provincial legislature in India. (Cal. 1941).

CHAPTER XII.

Present Provincial Governments.

(Under the new Constitution of 1935)

CASE FOR PROVINCIAL AUTONOMY.

Provincial Autonomy.

The Montagu-Chelmsford Report stated, "our aim is to give complete responsibility in the provinces as soon as conditions permit." The Act of 1919 by ear-marking certain subjects as *transferred* conferred some responsibility upon Provincial authorities. But that responsibility was not complete.

The Simon Commission recommended the introduction of complete Provincial Autonomy. "It is our intention," they reported "that in future each province should be as far as possible mistress in her own house." The Joint Select Committee also accepted the principle.

The Case for Provincial Autonomy.

(1) India is a *vast country and the means of communications are not well-developed* as to favour the administration of provincial matters by a Central Government.

(2) *Ethnic (racial), climatic, geological and geographical differences* between different parts of the country, favour the creation of separate units of administration.

Definition of Provincial Autonomy.

Provincial Autonomy may be defined as the autonomy or independence of the provincial government in the spheres of legislation, administration and finance; and freedom from control from the Central government and the Secretary of State for India.

The Working of Provincial Autonomy.

The Act of 1935 seems to record a remarkable advance in that direction. But a closer scrutiny will reveal that what has been given by one hand has been taken away by another. The constitution has been hedged with reservations, safeguards and special responsibilities. The Governor instead of being reduced into the position of a limited monarch, the ministry has been made limited. Though the insistence of the Congress, which captured six out of eleven provincial legislatures, to extract an assurance that the Governors would not interfere with the ministries acting within the constitution was successful, the British Government in India on more than one occasion went behind that assurance. Though the Congress accepted office and worked the constitution with a spirit of co-operation and good will, the first clash occurred in U. P. and Bihar in respect of release of political prisoners. But the matter was finally settled by patient negotiation and explanation. The solid public opinion behind the ministries was instrumental in bringing about the happy settlements. Indians first tasted the sweetness of a government for the people and by the people. Ministries intoxicated by the capture of real power, showed vigorous activities in nation-building work. Legislations relating to education, rural development, tenancy, prohibition, etc. were promulgated. The Madras Government removed the statue of General Neil from a public place and the Bombay Government restored to the owners the lands confiscated during the Civil Disobedience Campaign. Customs and Conventions relating to ministerial power were gradually being established. Everybody were hopeful about a regime of full autonomy in the provinces. But unfortunately came the war. The Government proposed to assume powers which legitimately lay within the orbit of ministerial responsibility. Remonstrances were unheeded and the Congress Ministries had to resign and revert to a policy of individual Satyagraha. Parleys with the Viceroy have hitherto proved abortive.

CHAPTER XIII.

The New Provincial Government.

(Under the Act of 1935).

THE PROVINCIAL EXECUTIVE.

Governor's Provinces.

There shall be *eleven* Governor's Provinces, namely—

MADRAS	BENGAL	THE UNITED PROVINCES
BOMBAY	BIHAR	THE CENTRAL PROVINCES & BERAR
SIND	ORISSA	THE NORTH WESTERN
THE PUNJAB	ASSAM	FRONTIER PROVINCE

The Act separates Burma from India and creates the Provinces of Sind and Orissa.

The Provincial Executive.

In form the Provincial Executive is *similar* to that of the Federation. The executive authority of a province shall be exercised on behalf of His Majesty by the Governor. He will receive his appointment from the King and will be constitutionally responsible to the Governor-General. He is to exercise his functions with the 'aid and advice' of a Council of Ministers, subject to his retention of special powers and responsibilities. He shall receive an Instrument of Instructions directing him how to exercise his functions.

Special Responsibilities of the Governor.

The Federal and Provincial executives differ, however, in the following three respects:—

(1) The executive authority of each province only extends to the matters about which the Legislature of the province has power to make laws.

(2) In the exercise of his functions the Governor of a Province has only the following special responsibilities:—

(a) the prevention of any grave menace to the peace or tranquility of the province or any part thereof;

(b) the safeguarding of the legitimate interests of minorities;*

(c) the safeguarding of the legitimate interests of the members of the public services;

(d) to prevent any form of commercial discrimination;

(e) the securing of the peace and good government of partially excluded areas;†

(f) the protection of the rights of any Indian State and the rights and dignity of the Ruler thereof;

(g) the securing of the execution of orders or directions by the *Governor-General in his discretion*.

From a study of the above responsibilities of a Governor, we find that unlike the Governor-General he has no special responsibilities for—

(i) the safeguarding of the financial stability and credit of his Province;

(ii) the prevention of discrimination or penal treatment of goods imported from the United Kingdom or Burma.

* It is not intended that the Governor should oppose any social reform because it is opposed by a minority.

† WHOLLY OR PARTLY EXCLUDED AREAS.

His Majesty may, by order in Council, declare an area in a Province to be excluded or 'partially excluded' from the new reforms.

With the assent of the Governor-General, the Governor may make regulations for the peace and good government for both the 'excluded' and 'partially excluded areas.'

The 'partially excluded' areas in Bengal are the Khasi, Jaintia, the Garo and the Mikir Hills in Assam and Darjeeling. The Ministers are primarily responsible for their administration but the Governor has special responsibilities for them.

The 'wholly excluded areas' in Bengal are the Naga and Lushai Hills, and Sadiya, Belapara and Lakhimpur hills in Assam and Chittagong Hill tracts. In the administration of these areas, the sole responsibility lies with the Governor acting in his discretion under the control of the Governor-General.

(iii) the securing of the due discharge of functions with respect to reserved subjects.

(3) The Constitution Act does not reserve any subjects for the consideration of the Governors, except. Sec. 57 which empower them to act in circumstances which are directed to disturb the peace or tranquility of a Province by terrorist activities.

He can also exercise his powers of discretion in legislative matters in certain cases.

The Council of Ministers.

The Provincial Ministers will be chosen by the Governor of the Province and will hold office at his pleasure. They are to have the same duties in relation to provincial affairs as the Federal ministers have in connection with federal affairs.

The Governor in his discretion may preside at meetings of the Council of Ministers. A minister can not continue to hold office if he cannot get himself elected within six months of his appointment. The salaries of ministers shall be determined by the Provincial Legislature.

The Council of Ministers are to 'aid and advise' the Governor in the exercise of his powers except in matters which are reserved by the Act to his discretion* or individual judgment.†

In such matters the Ministers have no constitutional right to tender advice, but in other matters they have the right to advise, *i.e.*, to initiate the proposals.

* DISCRETION. In such matters the responsibility of the Governor seems to lie with the Governor-General or the Secretary of State, or through the latter to Parliament.

† INDIVIDUAL JUDGMENT. It means that the Governor, after considering the advice of his ministers, is free to direct just as he thinks fit, that is to say, not necessarily to accept the advice tendered to him.

The Relations of the Governor with his Ministers.

The real executive shall be the ministers who shall be "solely responsible to the legislature" (Keith).

The Governor shall carry on the administration of the Province in the name and on behalf of the King Emperor. He is to be the nominal executive head* of the provincial administration like the British Monarch with some special responsibilities and powers to be exercised by him in certain contingencies.

Though the ministers are to exercise real executive powers the Governor for more convenient transaction of the business of administration should allocate† the business of government among them. But in matters which relates to his special responsibilities, he is to act according to his own discretion and judgment. He may in such matters consult his ministers but he is not to act according to their advice.

* "In all matters within the scope of the executive authority of the Province, save in relation to functions which he is required by the said Act to exercise in his discretion, our Governor shall in the exercise of the powers conferred upon him be guided by the advice of his Ministers, unless in his opinion so to be guided would be inconsistent with the fulfilment by any of the special responsibilities which are by the said Act committed to him, or with proper discharge of any of the functions which he is otherwise by the said Act required to exercise in his individual judgment.

† The Governor shall see that the Minister in charge of the Finance Department shall be consulted upon by any other Minister which affects the finance of the Province. In case there is disagreement between a minister and the Finance Minister on the question of appropriation of a Grant, the matter shall be brought for decision before the Council of Ministers.

But he shall be studious so to exercise his powers as not to enable his Ministers to rely upon his special responsibilities.—Instrument of Instructions to the Governor.

Law courts are barred from inquiring whether any, and if so what, advice was tendered by Ministers to the Governor, nor shall the validity of anything done by the Governor be called in question on the ground that it was done otherwise than in accordance with any Instrument of Instructions issued to him. The Governor in his discretion can make rules for withholding all records or sources of information relating to the activities of the Intelligence Department dealing with terrorism. The rules shall also require ministers and secretaries to Government to transmit to the Governor all information that may involve any of his special responsibility.

Sir Abdur Rahim deprecated the special responsibilities and special powers of the Governor. In his view, the provision to meet cases of breakdown of the Constitution should suffice to meet all serious contingencies.

The Ministers and the Legislature.

The Ministers are to be selected and appointed by the Governor. They are to be members of the legislature, or are to get themselves elected to the legislature within six months of their appointment.

The Governor is to select Ministers in consultation with the person who in his judgment is likely to command a stable majority in the Legislature. They should include members of important minority communities. Care should be taken to foster a sense of joint responsibility among the Ministers. There is to be a Chief Minister in every Province and the other ministers are to be his colleagues. A motion by the Labour Party to specify in the Act that one of the ministers shall be the Prime Minister was negatived. Thus though the principle of collective responsibility was stressed it was not constitutionally provided.

The Ministers are to hold office during the pleasure of the Governor. But in practice they will remain in office so long as they command the support and confidence of the Legislature.

The salaries of ministers shall be determined by the

Provincial Legislature and shall not be varied during their term of offices.

A Governor can appoint an official as a temporary member (an official Minister) of the Legislature to act as his mouthpiece in that body.

Safeguards and special powers of the Governor.

The powers of the Governor may be divided into three categories :—

(a) Acting on the advice of his ministers, (b) in his individual judgment, and (c) in his discretion. The second two categories have been provided to cope with his special responsibilities and to meet safeguards.

The Governor possesses the following *administrative*, *legislative* and *financial* powers to safeguard various interests.

(1) Administrative or Executive powers.

(a) WHEN TO EXERCISE SPECIAL RESPONSIBILITIES.

We have already seen that the Governor in the exercise of his functions has *special responsibilities* in preventing any grave menace to peace, in safeguarding the legitimate interest of minorities and of members of the public services, in preventing any form of commercial discrimination, in protecting the rights of Indian States, in administering the partially excluded areas, and in securing the execution of orders or directions lawfully issued by the Governor-General to the Governor.

He can take executive action to fulfil any of these special responsibilities. He may for this purpose require ministers and secretaries to bring to his notice any matter involving any of his special responsibilities.

(b) WHEN TO ACT IN HIS SOLE DISCRETION.

In the administration of wholly excluded areas, the Governor is to act in his own discretion. In the case of a

breakdown of the machinery of government he is also to act in his discretion. He can also exercise his powers of discretion in legislative matters in certain cases. In matters exercisable by the Governor in his discretion, the ministers have no constitutional right to advise him.

(c) HE IS TO SAFEGUARD THE POLICE.

The administration of Law and Order has been handed over to the Ministers in the new Constitution which was so long a reserved subject. So to safeguard the interests of the Police certain constitutional safeguards have been adopted. They may be stated as follows:—

(i) *No amendment or repeal of the Police Acts or Police Rules are permitted except with the previous sanction of the Governor.*

(ii) *Records and sources of informations regarding the activities of the Intelligence Service dealing with terrorism shall not be disclosed to outsiders without the permission of the governor.*

(iii) *For the purposes of combating crimes of violence designed to overthrow the government or endangering peace and tranquillity of the Province, the Governor is authorized to create new machinery for the purpose.*

(d) POWERS TO BE EXERCISED IN EVENT OF A BREAKDOWN.

In the case of failure of the constitutional machinery at any time, the Governor may by proclamation—

(a) declare that his functions shall be exercised by him *in his discretion*; and

(b) assume to himself all or any of the powers vested in or exercisable by any Provincial body or authority. The Proclamation shall be communicated forthwith to the Secretary of State and will cease to have effect after six months. It can be extended but in no case shall remain in force for more than three years.

(2) Legislative Powers.

(a) TO EXERCISE DISCRETIONARY LEGISLATIVE POWERS.

The Governor can exercise *discretionary powers* in

certain cases of legislation, such as assenting, withholding to assent, or refusing to assent (veto) certain bills passed by the legislature. In these matters the Governor can consult the ministers but the latter have no constitutional right to advise him.

(b) HE IS TO ENACT GOVERNOR'S ACTS.

The Joint Committee expressed the opinion that 'purely executive action may not always suffice for the due discharge of the Governor's special responsibilities, in some circumstances it may be essential that further powers should be at his disposal.' So he has been empowered in the exercise of his special responsibilities to enact Governor's Act. Neither the Minister nor the Legislature has any responsibility for such Acts.

The procedure to enact a Governor's Act is simple. He is to present a bill to the Legislature with a message that it is essential that the bill should become law at the expiry of one month. No acquiescence of the Legislature is required for such an Act.

The difference between the existing procedure of *certification of a bill* by the Governor and the Governor's Act in the new constitution is that in the former case a certified bill is deemed to be an Act of the Legislature, whereas in the latter it is declared to be a Governor's Act. The existing system amounts to a challenge to popular opinion; the new system is expected to engage much less public attention and lead to adverse comment.

(c) HE IS TO PASS ORDINANCES.

There are two kinds of ordinances, the first made in Governor's own responsibility and the second on the advice of ministers.

(i) *Ordinances during recess of the Legislature.* The Governor shall have power to make ordinances for the good government of the Province at any time *when the Legislature is not in session*, if his Ministers are satisfied that an

emergency exists and so advises the Governor. The responsibility for these ordinances shall lie with ministers and not with the Governor. They are to lapse after *six weeks* from the reassembly of the Provincial Legislature.

(ii) *Governor's power to promulgate any ordinance.* The Governor can promulgate ordinances at any time *in the exercise of his discretion and individual judgment*. Such ordinances are valid for six months in the first instance and may be renewed for another period of the same length.

(d) HIS POWER OF PROHIBITION.

The Governor can promulgate ordinances at any time *in the Legislature* in respect of any bill which he considers will affect the exercise of his special responsibilities.

(e) HIS RIGHT OF VETO.

The Governor in the name of His Majesty may withhold his assent to a bill or reserve it for the consideration of the Governor-General.

(3) Financial Powers.

No demand for a grant shall be made except on the recommendation of the Governor. He may restore any grant refused by the Legislature.

REMARKS. From the above survey we find that the Executive has been clothed with the largest power possible which if frequently exercised would reduce responsible government to a farce.

In exercise of the powers regarding safeguards, special responsibilities, powers of discretion and individual judgment, right of initiating legislation, prohibiting, vetoing and withholding assent from a bill, exercise of emergency powers during ordinary time or at the breakdown of the machinery of government, *he can make Provincial Autonomy a nullity*. But it should be remembered that the use of special powers by the Executive is a weapon which becomes blunt by use.

CHAPTER XIV.

THE PROVINCIAL GOVERNMENTS.

(Under the Act of 1919).

The Executive.

I. Diarchy.

No Complete Autonomy even in the Provinces.

While responsibility in the centre was out of the question, a complete responsibility in the Provinces was not even vouchsafed in view of the want of experience and illiteracy of the people.

The British Government agreed that some provincial responsibility should be allowed, but caution should be taken to avoid a breakdown. That is to say, such important subjects like Police, Finance, Prisons, Justice, Factory inspection, etc., should be *reserved* to the government for management, while Local Self-government, Education, Agriculture, etc., should be *handed over* to the people.

Diarchical form of Government.

In the ten Governor's Provinces, one half of the organism consisted of the *Governor and his Executive Council*, all of whom were appointed by the Crown. This body was responsible for the administration of those subjects, the most important of which were the administration of justice and the control of police (*i.e.*, law and order), which were *reserved*." The other half of the executive organism was the *Governor acting with the advice of Ministers* who were appointed by him, held office during his pleasure, and were

elected members of the Provincial Legislative Council. To the Governor acting with Ministers was entrusted the administration of "transferred" subjects.

All transferred subjects were within the jurisdiction of the provincial authorities. For reserved subjects the provincial governments remained under direct supervision from Delhi.

"This curiously bifurcated form of government is known to political scientists as a *diarchy*. As applied to the provinces of India this diarchy is not intended to provide an ideal or permanent scheme of administration. It is a compromise between home rule in all matters, and home rule in none."

II. The Governor

There were ten governor's provinces, the "Governors of the Presidencies" of Bengal, Madras and Bombay and the "Governors of the Provinces" of the United Provinces, the Punjab, Bihar and Orissa, the Central Provinces, Assam, Burma and the N. W. F. Province. There were Chief Commissionerships.

A governor held office generally for five years and his salary was not votable, *i.e.*, not subject to the vote of the legislative council.

He could appoint and dismiss a Minister. He had a casting vote in his Executive Council. He could override both his Council and his Ministers on grounds of safety, tranquillity and safety of his province. He appointed Council Secretaries. The latter had direct access to him.

His Control over the Legislature.

(1) He could *dissolve and extend* (for one year) the legislative council and could prorogue it if necessary. (2) His *assent* was necessary for a Bill to become an Act. (3) He could *certify* a Bill

on grounds of safety and tranquillity of the province. (4) Without his recommendation no money or revenue could be appropriated. (5) His approval was necessary if a member wanted to introduce any measure affecting the revenue.

III. Dual form of Government : Diarchy.

Appointment of Ministers.

The Governor appointed the Ministers who held office during his pleasure. Ministers could not hold office for more than six months unless they were elected members of the legislature. Their number varied from three in each of the three presidencies and in the U. P. and the Punjab, to two in the four other provinces. The ministers drew a salary of Rs. 64,000 per annum.

Legislative Responsibility of Ministers.

They were *responsible to the legislature* in the sense that they resigned their offices when votes of no confidence were passed against them or their salaries were refused. They did not resign office when any of their Bill, motion or a proposed measure was rejected by the legislature or any grant necessary for the proper functioning of their departments was refused. *They were not collectively responsible.* Nor did they require to belong to the same political party. "*The Ministers did neither form a Ministry, nor a Council.*" They acted singly without mutual consultation.

Ordinarily, the Governor was bound by the advice of the Ministers in relation to transferred subjects, but he could for sufficient cause overrule them.

Why Diarchy is a Failure ?

Many a competent authority hold that diarchy has failed. It has failed owing to the narrow field over which the experiment has been tried and the inadequate opportunity and responsibility which have been afforded for conducting and controlling the government. The causes of the insta-

bility of Bengal ministries reveal the reasons why diarchy is a failure.*

The ministers in the absence of the support of an elected majority, had to throw themselves together with the Executive Councillors, particularly because they had to depend often on the official block. This engendered the unpopularity of ministers and frequent estrangement of their own following.

Further, the access of Secretaries to the Governor undermined the prestige of the ministers. Again, the control of the purse by the executive branch of the administration reduced the ministers to a mere dignified clerk. Finally, the arbitrary division of departments among the two branches was often found to be anomalous.

INSTABILITY OF THE BENGAL MINISTRIES.

In Bengal the difficulties of a stable ministry had arisen out of the following causes. First, the Swaraj party which repeatedly captured the majority of the elected seats in the Bengal Council was wedded to a policy of obstruction through the legislature. *Secondly*, the jealousies among the few non-Swarajist members, particularly among Mahomedans, made any combination impossible. *Thirdly*, inadequacy of funds for nation-building departments, the limited powers of Ministers, their absolute dependence on the official block, the disproportionately large salaries which they usually drew, the absence of any good record of work done by them, direct and indirect check upon their powers exercised both by the Governor and their own secretaries, and oftentimes ill-chosen personnel of Ministers without a following, made the ministries of Bengal as much unpopular as the diarchy itself and so their tenure became unstable.

Through motions of no-confidence and refusal of salaries, the discomfitures of Ministers were generally brought about. Sir Abdur Rahim's ministry was perhaps of the shortest tenure on record.

CHAPTER XV.

The Present Provincial Legislature.

(Under the Act of 1935).

The Provincial Legislature.

In every province there shall be a Provincial Legislature which consist of His Majesty, represented by the Governor, and—

(a) in the Provinces of Bengal, Bihar, Assam, the United Provinces, Madras and Bombay, *two chambers*;

(b) in other Provinces, *one Chamber*.

In Provinces where there are to be two chambers, the upper and the lower chambers are to be known respectively as the *Legislative Council* and the *Legislative Assembly*. In unicameral provinces, the Chamber is to be known as the *Legislative Assembly*.

Composition of the Provincial Legislature.

The official 'block' in the legislature is to go. The legislatures shall be composed *entirely of elected members* excepting a few who are to be nominated by the Governor to the Upper Chamber.

The Legislative Council.

The size of the *Legislative Council* varies from a maximum of 65 in Bengal to a minimum of 21 in Assam. The Council would be constituted variously, *in part by nominated members* the number of whom would vary from a maximum of 10 in Madras to a minimum of 3 in Bihar, Assam and Bombay; *in part by election* from General, Mahomedan and European constituencies. In Bengal and

Seats in Provincial Legislative Councils

Provinces	Total of seats	Seats in Provincial Legislative Councils					Seats to be filled by Governor
		General seats	Mahomedan seats	European seats	Indian Christian seats	Seats to be filled by Legislative Assembly	
Bengal	not less than 63 not more than 65	10	17	3	...	27	not less than 6 not more than 8
Madras	not less than 54 not more than 56	35	7	1	3	...	not less than 8 not more than 10
Bombay	not less than 29 not more than 30	20	5	1	...	...	not less than 3 not more than 4
United Provinces	not less than 58 not more than 60	34	17	1	...	...	not less than 6 not more than 8
Bihar	not less than 29 not more than 30	9	4	1	...	12	not less than 3 not more than 4
Assam	not less than 21 not more than 22	10	6	2	...	...	not less than 3 not more than 4

Bihar, 27 and 12 members respectively are to be chosen by the Legislative Assemblies. In the rest of the bi-cameral provinces, Madras, Bombay, the United Provinces and Assam, the Legislative Assemblies are not to elect any member to the Legislative Councils. All members are to be elected by primary electors. The Communal Award did not contain proposals for the composition of the Legislative Council of any province. But the composition of the Councils is, however, based upon the directions of the Communal Award.

The Legislative Assembly.

It is to be composed entirely of members directly elected. The size of the Legislative Assembly, the lower house, will be 250 in Bengal, 152 in Bihar, 108 in Assam, 175 each in Bombay and the Punjab, 228 in the United Provinces, 215 in Madras, 112 in the Central Provinces, and only 50 in the North West Frontier Province.

The Communal Award.

The distribution of seats are based on the Communal Award issued by His Majesty's Government on 4th August 1932 with such modifications as have been rendered necessary by the creation of the Province of Orissa and by the Poona Pact. The Award was made on the ground that the various communities failed to reach any agreement on the vital question of separate electorates and the distribution of communal seats. The Award would only be altered or modified if all parties affected by it come to an agreement.

The Poona Pact.

The Award introduced election by separate electorates for the Depressed classes within the Hindu community itself. Mahamta Gandhi as a protest against this artificial division between two parts of the same community resolved

THE INDIAN ADMINISTRATION

Seats in Provincial Legislative Assemblies

Provinces	General Seats		Sikhs Seats	Mahomedan Seats	Anglo-Indian Seats	European Seats	Indian Christian Seats	Seats for representatives of Commerce, Industry, Mining and Planting	Landlord's Seats	University Seats	Seats for representatives of Labour	Seats for Women				
	Total Seats	Total of General Seats										General	Sikh	Mahomedan	Anglo-Indian	Indian Christian
Bengal ...	250	78	30	...	...	117	3	11	2	19	5	2	8	2	...	1
Bombay ...	175	114	15	1	...	29	2	3	3	7	2	1	7	5	...	...
Madras ...	215	146	30	1	...	28	2	2	8	6	6	1	6	6	...	...
United Provinces ...	228	140	20	...	...	64	1	2	2	3	6	1	3	4	...	1
Punjab ...	175	42	8	...	31	84	1	1	2	1	5	1	3	1	1	...
Bihar ...	152	86	15	7	...	39	1	2	1	4	4	4	3	3	...	...
Central Provs. & Berar ...	112	84	20	1	...	14	1	1	...	2	3	1	2	3	...	...
Assam ...	108	47	7	9	...	34	...	1	1	11	...	...	4	1	...	...
North-west Frontier P. ...	50	9	...	...	3	36	...	...	...	2	2	...	...	...	...	...
Orissa ...	60	44	6	5	...	4	...	...	1	...	2	...	1	2	...	...
Sind ...	60	18	...	...	...	33	...	2	...	2	...	...	1	1	...	...

In Bombay seven of the General Seats shall be reserved for Marhattas. In the Punjab one of the Landholders' Seats shall be a Seat to be filled by a Tumandar. In Assam the seat reserved for women shall be a non-communal seat.

to fast unto death. To desist him in his grim resolve an agreement was reached between the Caste Hindus and the Depressed classes whereby the number of seats were redistributed among them and the system of election through a separate electorate was adopted in a modified form.

Legislature—its tenure, sessions, etc.

Legislative Assemblies, unless sooner dissolved, are to continue for *five years*. Legislative Councils are to be permanent bodies not subject to dissolution but *one-third of their members are to retire every three years*.

The Chamber or Chambers of every Province shall meet at least once a year. The Governor may in his discretion summon the Chambers or either Chamber, prorogue the Chamber or Chambers, or dissolve the Legislative Assembly.

The Governor may in his discretion *address* the Legislature, or may *send messages* to either or both houses of the Legislature.

Every Minister and the Advocate-General shall have the right to speak in or partake in the proceedings of the Legislature. But he shall not have the right to vote if he is not a member.

Election of the Speaker and Deputy Speaker.

Every Provincial Legislative Assembly shall elect as its President a Speaker. A Deputy Speaker shall also be elected to preside in the absence of the Speaker. They must be elected members of the Assembly. In the bi-cameral provinces, in the upper chamber a President and a Deputy President shall be elected. Their salaries shall be determined by the Act of the Provincial Legislature. The Speaker or President shall have a casting vote.

Quorum and the Oath of Allegiance.

One-sixth of the total number of members of Provincial Legislative Assembly should form the quorum while *ten*

members should form the quorum in a Provincial Legislative Council.

Every member shall, before taking his seat, take an oath of allegiance in the prescribed form. A member can vacate his seat by resignation or as the result of incurring disqualifications.

Disqualification for membership.

A person shall be deemed to be disqualified for membership in a Legislative Assembly or Legislative Council :—(1) If he holds any *office of profit* under the Crown in India ; (2) if he is of *unsound mind* ; (3) if he is an undischarged *insolvent* ; (4) if he had been found guilty of any offence or corrupt or illegal practices relating to elections and the requisite period of suspension has not been over ; (5) if he has been sentenced to transportation or to imprisonment for not less than two years and the five-year period of suspension is not over.

Privileges of Members.

There shall be freedom of speech in every Provincial Legislature and no member shall be liable to any proceedings for anything said or any vote given by him or in respect of any publication by or under the authority of such a Legislature.

Members shall receive such salaries and allowances as may be determined by an Act of the Provincial Legislature.

Powers of the Provincial Legislature.

(1) CONTROL OVER LEGISLATION.

A bill shall not be deemed to have been passed unless it has been agreed to by both the Chambers. It must then receive the assent of the Governor and published in the official Gazette. When the Chambers disagree with regard to a bill and the difference is not settled within twelve months, the Governor may convene a joint session of both the Houses. The joint session may duly pass a Bill by a majority of votes.

Legislation may be initiated in both House of the Legislature except that money bills (*i.e.*, bills authorising taxation, expenditure and borrowing) should be initiated in the Lower House. The Upper House is designed to serve as a check on hasty and ill-conceived legislation.

EXECUTIVE CONTROL OVER THE PROVINCIAL LEGISLATURE.

The Governor may *assent*, *refuse assent*, or *reserve* a bill for the consideration of the legislatures. He can prevent discussion of bills or any amendments on the ground that it affects any of his special responsibilities. All bills are subject to disallowance by the Crown.

(2) CONTROL OVER FINANCE.

Money bills are to be initiated in the Lower House, the Upper Chamber having no voice in the matter of grants for expenditure. These shall be presented in the form of demand for grants, on the recommendation of the Governor, to the Legislative Assembly which shall have power to *assent*, or *refuse assent* to a demand, or *reduce* it.

EXECUTIVE CONTROL OVER THE PROVINCIAL FINANCE.

All demand for grants cannot be introduced or moved except on the recommendation of the Governor. The latter can *restore* heads of expenditure which have not been accepted by the Assembly on the ground that it affects his special responsibility.

(3) CONTROL OVER THE EXECUTIVE.

The ministers are responsible to the legislature and are to hold office so long as they can command the confidence (*i.e.*, majority of votes) of the Legislature. They are to resign office as soon as they lose its confidence.

EXECUTIVE INDEPENDENCE.

The Governor can exercise wide powers in his discretion and judgment and in the discharge of his special responsibilities. In the administration of excluded areas, the Legislature has no control.

The Budget.

The Governor must lay before the Legislature, the budget or an annual financial statement embodying the estimates of revenue and expenditure of the province. They are to show separately—

(a) The sums required to meet *expenditure charged upon the revenues of the Province* ;* and (b) the sums required *to meet other expenditure* proposed to be made from the revenues of the Province.

The estimates of expenditure charged upon the revenues of a Province are not to be submitted to the vote of the Legislative Assembly. Such estimates, however, can be discussed except the estimates relating to the salary and allowances of the Governor and the expenditure relating to his office. A Governor has further the power to include in the schedule of authorized expenditure a sum necessary to secure the due discharge of his special responsibilities. But this power can only be exercised when such a demand has been made and has either been refused or reduced by the Legislature. *All other expenditure shall be open to the vote and discussion of the Assembly.*

The Legislature in Bengal.

The Upper House or the *Legislative Council* will consist of not less than 63 and not more than 65 members, of whom not less than *six* and not more than *eight* will be nominated by the Governor. Officials in active service will not be entitled to nomination. Of the total elected members, *twenty-seven* will be elected by the Lower House and the rest will be elected directly, ten from general constituencies, and *seven-teen* by Mahomedan constituencies, and three by European constituencies.

The Lower House or the *Legislative Assembly* will be composed of 250 elected members. There shall be no official, or nominated members in the Legislative Assembly.

* It includes the salary and allowances of the Governor, debt charges including interest, sinking fund charges, etc., the salaries and allowances of ministers and of the Advocate-General, salaries and allowances of judges of any High Court, expenses for administering excluded-areas, etc.

Of a total of 250 seats, the number of *general seats* are 80 of which 30 are reserved for the *scheduled castes* and 2 are for women, 119 for *Mahomedans including* 2 women, 4 for Anglo-Indians including one woman, 11 for Europeans, 2 for *Indian Christians*, 5 for *Landholders*, 1 each for *Calcutta and the Dacca Universities*, 19 for *Commerce and Industry* and 8 for *Labour*.

Criticism of the Provincial Government.

It must be admitted that Provincial autonomy which is the corner stone of the new constitution is a definite improvement on Dyarchy. In the new order of things, there is no distinction between the Reserved and Transferred subjects and all Departments have been thrown open to the control of properly elected Indian ministers responsible to the legislature. Nevertheless, at the same time, nobody can rightly deny that there are several provisions in the Act which tend to destroy this responsibility. And the first thing that strikes us is the too wide and extensive range of powers vested in the Governor.

1. POWERS OF THE GOVERNOR.

In fact, the special responsibilities,—the powers extraordinary and discretionary of the Governor, his control over the Police—will make him the pivot of the provincial administration. In the words of Sir S. A. Khan, "Instead of making provisions for conventions whereby the Governor will gradually acquire the constitutional position of a Governor of the Dominions, provisions have been made giving him powers which will virtually make him the effective head of the Provincial Administration. The plea of the authors of our constitution in this matter is rather peculiar. They are of opinion that a strong executive armed with those powers is the most effective guarantee for the development of responsible self-government in this country. It is very difficult to appreciate this logic. We, on the other hand, feel that these powers of the Governor are so many

checks and safeguards nullifying the responsibility of the provincial ministers. Certainly, the transfer of power in the provinces is neither generous nor in an ungrudging spirit. It is not provincial autonomy but "autonomy of leading strings" or gubernatorial autonomy".

2. COMMUNAL ELECTORATE AND RESERVATION OF SEATS.

The system of Communal Representation and reservation of seats introduced for the purpose of composing Provincial Legislature will *split up the people into several hostile groups*. This definitely will retard the development of democratic institutions in the provinces.

3. SECOND CHAMBERS.

In several provinces Second Chambers have been established to meet the demands of the landlords, zemindars and other vested interests as a check on the lower house. But modern democratic constitutions and political thought stand definitely against such a body because of its reactionary character (Laski). Sir T. B. Saprú rightly opposed their establishment on three unassailable grounds:—(a) their conservative character; (b) as they are expected to block all progressive social legislation; and (c) as they will be an additional strain on the provincial purse without any corresponding utility.

4. RESTRICTED POWERS.

The powers of the Provincial Legislature are also restricted as those of the Federal Legislature.

5. INEXHAUSTIVE LEGISLATIVE LISTS.

The fields of legislative competence of the Federal Legislature on the one hand and the Provincial Legislature on the other have been sought to be demarcated by classifying subjects as Federal, Provincial and Concurrent. But this classification is not quite exhaustive and will give rise to conflict of jurisdictions between the centre and the units.

CHAPTER XVI.

DISTRIBUTION OF POWERS.

A. Distribution of Powers (the Act of 1919).

Delegation of Powers : Provincial Autonomy.

The local governments in India did not formerly derive their powers from the Constitution as in the federal governments, but from the Central Government. The latter, however, of its own accord "*granted to the provinces the largest measure of independence.*" This we may call *autonomy of the provinces*,* i.e., relaxation of central control over provincial administration. But all the same, theoretically and constitutionally, India had a unitary form of government and the provincial governments were always reckoned to have derived all their powers from the centre. Thus the division of functions between central and local governments was *federal in form but unitary in principle*.

But as soon as the federal form of Government was introduced in India, each set of Government became independent of the other and each was drawing all its powers from the constitution.

Provincial and Central Subjects.

For administrative convenience a distribution of functions between the central and the provincial governments are

* "Responsibility in the provincial administration was incompatible with bureaucratic control from above. The largest possible measure of independence in legislation, administration and finance had to be conceded to the provinces. This independence and freedom is conceded in the new familiar expression 'provincial autonomy.' A large measure of liberty was conceded in the interests of an all-sided provincial development and the growth of self-governing institutions."—*Palande*, p. 198—99.

adopted. Functions which concern the whole country and need be uniform are left in the hands of the Central Government, *e.g.*, defence, currency, tariffs, posts and telegraphs, etc. On the otherhand, functions which concern the provincial administration, *e.g.*, education, medical relief, maintenance of order, are left in the hands of the local administration.

B. Distribution of Powers in the Act of 1935.

There lists of subjects.

In the Canadian Federation the local governments have been conferred the right to legislate on certain *specified subjects* while the central government has been given the *residual* powers of legislation. In the United States, on the otherhand, the Central government has been conferred the right to legislate on specified subjects while the local governments enjoy residual powers. But experience has demonstrated that such a distribution of powers *tends to promote strife* between the two parts of the government on the question of proper allocation of powers. The working of the Canadian constitution has further shown that there are certain matters which cannot be allocated exclusively to either the Central or to a Provincial Legislature.

Accordingly, the Act of 1935 provides that there should be three lists of subjects.

- (1) *A list of subjects exclusively federal,*
- (2) *A List of subjects exclusively provincial,*
- (3) *A List of subjects under concurrent jurisdiction.**

* The Joint Committee pointed out that after the allocation of subjects into Federal and Provincial, a residue of subjects must remain. It would be beyond the skill of any draftsman to guarantee that no potential subject of legislation has been overlooked. The White Paper proposed that the allocation of this residue of power should be left to the discretion of the Governor-General. The Act

Concurrent lists are subjects with respect to which the Federal Legislature shall have the power of legislating concurrently with the provincial legislatures with appropriate provision for avoiding any possible conflict between them. But such concurrent jurisdiction would bring many complications which the Federal Court cannot adequately solve.

So the Governor-General has been authorized to allocate between the Federal and the Provincial governments these matters of concurrent jurisdiction and in the discharge of his functions he shall act in his discretion.

In times of grave emergency, the Governor-General in his discretion can also authorize the Federal Legislature to enact laws which belong to the Provincial Legislative List. But bills enacting such laws must be introduced with the previous sanction of the Governor-General.

Further, two or more Provincial Legislatures by resolutions can request the Federal Legislature to pass an Act relating to subjects enumerated in the Provincial List.

Federal Legislative List.

The Federal Legislature alone shall have power to legislate on subjects enumerated in the Federal List. The subjects may be enumerated as follows :—

1. Defence including naval, military and air forces, etc.
2. Defence works.
3. External affairs.
4. Ecclesiastical affairs.
5. Currency, coinage and legal tender.
6. Public debt of the Federation.
7. Posts and Telegraphs, etc.
8. Federal Public Services and Federal Public Service Commission.
9. The Imperial Library, the Indian Museum, the Victoria

vests the Governor-General with the power of not merely allocating unenumerated subjects, but also to determine conclusively whether a given legislative project is or is not covered by the enumeration as it stands.

Memorial, and similar institutions; federal institutions for research.

10. The Benares Hindu and the Aligarh Moslem University.
11. The Survey of India, the Geological, Botanical and Zoological surveys, etc.
12. Ancient and historical monuments, etc.
13. Census.
14. Immigration and emigration.
15. Foreign Trade.
16. Federal Railways, its rates and fares, etc.
17. Maritime shipping and navigation.
18. Aircraft, air navigation, and transport by air.
19. Copyright, inventions, trademarks, etc.
20. Opium, its production, sale and export.
21. Trading Corporations and Corporation tax.
22. Regulation of labour.
23. Regulation of mines and oilfields.
24. The Law of Insurance.
25. Customs duties.
26. Salt.
27. Naturalisation.
28. Jurisdiction over all courts other than the Federal Court.
29. Income Taxes.
30. Succession duties.

Indian States which would join the federation are expected to acquiesce in the regulation of the above mentioned subjects by the Federal Legislature, except in the following cases in which the States may exercise their discretion :—

Income Tax, Succession duties, Naturalisation, Tax on capital, State lotteries, Migration within India, Standards of weights and measures, and Commercial stamps.

Provincial Legislative List.

The provinces alone can legislate on the following subjects :

- | | |
|------------------------------|---------------------------------|
| 1. Law and Order. | of all courts except the |
| 2. Administration of justice | Federal Courts. |
| and jurisdiction and power | 3. Prisons, Reformatories, etc. |

- | | |
|---|---|
| 4. Public Debt of the Province. | 12. Agriculture. |
| 5. Provincial Public Services and Provincial Public Service Commission. | 13. Forests. |
| 6. Public Works of the Province. | 14. Trade and Commerce within the Province. |
| 7. Libraries and Museums controlled and financed by the Province. | 15. Relief of the Poor; unemployment. |
| 8. Local Governments. | 16. Land Revenue. |
| 9. Public health and Sanitation. | 17. Taxes on agricultural income. |
| 10. Communications, such as roads, bridges, etc. | 18. Duties on Succession to agricultural lands. |
| 11. Irrigation. | 19. Taxes on mineral rights. |
| | 20. Taxes on professions, trades and callings. |
| | 21. Entertainment taxes, etc. |
| | 22. Tolls. |

Concurrent Legislative List.

Both the Federal and the Provincial Legislatures shall have power to legislate on the following concurrent list :—

PART I.

1. Criminal Law.
2. Criminal Procedure.
3. Evidence and Oath.
4. Marriage and Divorce.
5. Wills, intestacy and succession.
7. Contracts.
8. Arbitration.
9. Bankruptcy and Insolvency.
10. Legal, medical and other professions.

11. Newspapers, books and printing presses.
12. Poisonous and dangerous drugs.

PART II.

1. Factories.
2. Welfare of Labour.
3. Unemployment insurance.
4. Trade Unions; industrial and labour disputes.
5. Electricity.
6. Film censorship.

The Council of State*Representatives of British India.*

Province or Community	Total Seats	General Seats	Seats for Scheduled Castes	Sikh Seats	Mahomedon Seats	Women Seats
Madras ..	20	14	1	...	4	1
Bombay ..	16	10	1	...	4	1
Bengal ..	20	8	1	...	10	1
United Provinces ..	20	11	1	...	7	1
Punjab ..	16	3	...	4	8	1
Bihar ..	16	10	1	...	4	1
Central Provinces & Berar ..	8	6	1	...	1	...
Assam ..	5	3	...	...	2	...
North West Frontier Province	5	1	...	...	4	...
Orissa ..	5	4	...	...	1	...
Sind ..	5	2	...	...	3	..
British Beluchistan ..	1	...	...	...	1	...
Delhi ..	1	1	...	...	...	...
Ajmer-Merwara ..	1	1	...	...	...	...
Coorg ..	1	1	...	...	...	...
Anglo-Indians ..	1	...	...	...	...	...
Europeans ..	7	...	...	...	...	...
Indian Christians ..	1	...	...	...	...	...
Total ..	150	75	6	4	49	6

Conflict of Jurisdiction.

We have already seen that ordinarily neither the federal nor the provincial legislatures have jurisdiction to interfere with the legislative powers of each other. In case of emergency the Governor-General by a Proclamation can authorize the Federal Legislature to enact laws on matters which are included in the Provincial Legislative List. The Federal Legislature can also legislate on provincial subjects if two or more provinces so request it.

So far as the concurrent list is concerned if a provincial legislature passes an Act which is repugnant to a Federal law, the latter must prevail. A Provincial Law shall only prevail against a federal law only when it has been reserved for the consideration of the Governor-General or for the signification of His Majesty's pleasure and has received the assent of the Governor-General or of His Majesty.

Residual powers.

The three legislative lists cover a wide field. But it is never possible to frame a list which would cover all conceivable eventualities. Again, future developments in Indian and world affairs might introduce subjects which cannot be contemplated at this stage. So the Act has made provision with respect to the *residual powers* of legislation. Section 104 provides that "the Governor-General may by public notification empower either the Federal Legislature or a Provincial Legislature to enact a law with respect to any matter not enumerated in any of the three lists." In the discharge of this function the Governor-General shall act in his discretion. This Section, however, not only empowers the Governor-General to allocate not merely an unenumerated subject, but also to determine conclusively whether a given legislative project is or is not covered by the enumeration of subjects as it stands.

The Federal Assembly.

Representatives of British India.

Provinces	Total Seats	General Seats		Sikh Seats	Mahomedan Seats	Anglo-Indian Seats	European Seats	Indian Christian Seats	Seats for Representatives of Commerce and Industry	Land-holders Seats	Seats for Representatives of Labour	Women's Seats
		Total of General Seats	General Seats reserved for Scheduled Castes									
Madras	37	19	4	...	8	1	1	2	2	1	1	2
Bombay	30	12	2	...	6	1	1	1	3	1	2	2
Bengal	37	10	3	...	17	1	1	1	3	1	2	1
United Provinces	37	19	3	...	12	1	1	1	...	1	...	1
Punjab	30	6	1	6	14	...	1	1	...	1	1	1
Bihar	30	16	2	...	9	...	1	1	...	1	1	1
Central Provinces & Berar	15	9	2	...	3	...	1	...	...	1	1	1
Assam	10	4	1	...	...	...	1	...	...	...	...	...
North-West Frontier Prov.	5	1	...	...	...	...	...	...	...	...	...	...
Orissa	5	4	1	...	...	...	...	...	...	...	...	...
Sind	5	1	...	...	...	...	1	...	...	...	...	...
British Beluchistan	1	...	...	...	...	...	...	...	...	...	...	...
Delhi	2	1	...	...	...	...	...	...	...	...	...	...
Ajmer-Merwara	1	1	...	...	...	...	...	...	...	...	...	...
Coorg	1	1	...	...	...	...	...	...	...	...	...	...
Non-Provincial Seats	4	...	...	...	...	...	...	...	3	...	...	...
Total	250	105	19	6	82	4	8	8	11	7	10	9

CHAPTER XVII.

IMPORTANT FEDERAL PROBLEMS.

I. The Federal Court.

Composition of the Federal Court.

The Act establishes a Federal Court. It is an essential element in a Federal Constitution. "It is at once the interpreter and guardian of the Constitution and a tribunal for the determination of disputes between the constituent units of the Federation."

The Federal Court shall consist of a Chief Justice of India and such number of other judges as His Majesty may deem necessary. The puisne judges are not, however, to exceed six unless and until an address has been presented by the Federal Legislature to the Governor-General for submission to His Majesty praying for an increase in the number.

The Law declared by the Federal Court and Privy Council is to be binding on all courts.

Every judge of the Federal Court is to be appointed by His Majesty and is to hold office until he attains the age of sixty-five years. But a judge may resign his office, and may be removed therefrom by His Majesty on the ground of misbehaviour or of infirmity of mind or body if the Judicial Committee of the Privy Council, on reference being made to them by His Majesty, report that the judge ought on any such ground to be removed.

Qualifications of a Judge.

A person is not qualified to be appointed as a judge of the Federal Court unless he

(a) has been for at least five years a judge of a High Court in British India or in a Federated State; or

(b) is a barrister of England or Northern Ireland of at least ten years' standing, or a member of the Faculty of Advocates in Scotland of at least ten years' standing; or

(c) has been for at least ten years a pleader of a High Court in British India or in a Federated State or of two or more such Courts in succession.

A person is not to be deemed qualified for appointment as Chief Justice of the Federal Court unless he is, or when first appointed to judicial office was, a barrister, a member of the Faculty of Advocates or a pleader. He must have judicial experience extending over fifteen years.

The administrative expenses of the Federal Court shall be charged upon the revenues of the Federation.

Seat of the Federal Court.

The Federal Court will sit at Delhi and at such other place or places, if any, as the Chief Justice of India, may, with the approval of the Governor-General, from time to time appoint. It will have—

(a) *An original jurisdiction.*

(b) *An appellate jurisdiction in appeals from High Courts in British India; and*

(c) *An appellate jurisdiction in appeals from High Courts in federated States.*

GOVERNOR-GENERAL AND THE FEDERAL COURT.

It is provided that if at any time it appears to the Governor-General that a question of law has risen, or is likely to arise, which is of such a nature and of such public importance that it is expedient to obtain the opinion of the Federal Court upon it, he may in his discretion refer the question to that Court for consideration, and the Court may, after such hearing as they think fit, report to the Governor-General thereon.

Jurisdiction of Federal Courts.

(1) ORIGINAL JURISDICTION.

The Federal Court shall to the exclusion of any other court,

have an original jurisdiction in any dispute between any two or more of the following parties, that is to say the Federation, any of the Provinces or any of the Federated States in so far as the dispute relates to the existence or extent of a legal right.

The Federal Court in the exercise of its original jurisdiction shall not pronounce any judgment other than a declaratory judgment.

(2) APPELLATE JURISDICTION.

(a) *To the Federal Court shall lie appeals from the High Courts in British India, if the High Court certifies that the case involves a substantial question of law as to the interpretation of the Act or any Order in Council made thereunder.*

(b) *An appeal will lie to the Federal Court from a High Court in a Federated State by way of special case on the ground that a question of law has been wrongly decided.*

Such question must be one (a) which concerns the interpretation of the Act or of an Order in Council made thereunder; or (b) which concerns the authority of the Federation in that state; or (c) arises under an agreement in relation to the administration in that State of a law of the Federal Legislature.

The Federal legislature by special legislation can enlarge the appellate jurisdiction of the Federal Court. No appeal, however, is to lie under any such Act unless,

(1) the amount or value of the case is not less than Rs. 50,000 or such other sum not less than Rs. 15,000 as may be specified by the Act; or

(2) The Federal Court gives special leave to appeal. If the Federal Legislature thus enlarges the appellate jurisdiction of the Federal Court consequential provision may also be made for the abolition in whole or in part of direct appeals in civil cases from High Courts in British India to the Judicial Committee of the Privy Council, either with or without special leave.

Appeal to the Privy Council.

Section 208 provides that an appeal may be brought to the Judicial Committee of the Privy Council from a decision of the Federal Court in the following manner :—

WITHOUT LEAVE.—From any judgment of the Federal Court given in the exercise of its original jurisdiction.*

BY LEAVE OF THE FEDERAL COURT OR OF HIS MAJESTY IN COUNCIL—In any other case.

II. Administrative Relations.

Administrative nexus.

As the introduction of the federal principle has strictly limited the respective spheres of the Centre and the Provinces, the establishment of a nexus of a new kind between the Federation and its constituent elements has become necessary.

Between the Federation, Provinces and States.

IN LEGISLATION.—*Federal Legislature has power to enact legislation in Federal subjects which will have the force of law in every Province and also in every State.*

The Governor-General may, with the consent of the Government of a Province or the Ruler of a Federated State, *entrust to that Government or Ruler functions in relation to any matters to which the executive authority of the Federation extends.* Moreover, the Federal Legislature may *delegate to the Provincial Governments and the Federated States the duty of executing and administering the law on behalf of the Federal Government.*

Agreements may be made between the Governor-General and the Ruler of a Federated State for the administration by the latter in his State of any law of the Federal Legislature which applies to it.

The executive authority of every Province shall be so exercised as not to impede or prejudice the exercise of the executive authority of the Federation, and the executive authority of the Federation, can

* If any dispute which concerns the interpretation of the Act or an Order in Council made thereunder, or the extent of the legislative or executive authority vested in the Federation by virtue of the Instrument of Accession of any State, or arises under an agreement made in Part VI of the Act in relation to the administration in any State of a law of the Federal Legislature.

give directions to a Province to that effect. If such directions are not attended to, the Governor-General can also issue instructions in his discretion to the Governor of a Province directing him *to act in a way as to prevent any grave menace to the peace and tranquillity of India.*

A Federated State should not impede the executive authority of the Federation. If the Governor-General finds that a federated State has failed to fulfil this obligation, he may issue such instructions to that Ruler as he thinks fit. The disputes about questions whether the executive authority of the Federation is exercisable in a State, may be referred to the Federal Court for determination.

Inter-provincial Council : for co-operation.

The Act provides for the establishment of a Federal Court which is to have jurisdiction to hear disputes between Provinces involving the existence or extent of a *legal right*. But disputes of a non-legal character may also sometimes arise. For the settlement of the latter type of disputes the Joint Select Committee recommended the development of a system of *inter-provincial Council*. But it did not favour that an Inter-Provincial Council should be provided in the Act itself. So the Act provides that His Majesty in Council can establish such a Council on representations from the Governor-General the functions of which would be—

(a) To enquire into and advise upon disputes which may have arisen between Provinces ;

(b) To investigate and discuss upon subjects in which some or all of the Provinces or the Federation and some of the Provinces are interested ;

(c) to make recommendations upon any subject. In matters of conflict between two or more units of the Federation on *water supplies*, the Governor-General reserves the power of appointing a Commission and to give his decision as he likes upon the recommendations of the Commission.

Sec. 133 excludes the jurisdiction of the Federal Court and of any other Court in the case of any dispute which can be decided by the Governor-General.

III. The System of Federal Finance.

The Problem.

"In any Federation the problem of the allocation of resources is necessarily one of difficulty, since two different authorities—the Government of the Federation and the Governments of the Units, each with independent powers, are raising money from the same body of taxpayers."

The Joint Select Committee came to the conclusion that (a) a few provinces possess the sources of revenue which can meet a reasonable standard of expenditure; and (b) the existing division of resources between the Centre and the Provinces leaves the Centre in the possession of heads which respond to improvement in economic conditions.

This has led to a very strong claim by the Provinces for a substantial share in the taxes on income.

"But the general conclusion to which the Joint Select Committee came was that, though no formidable new financial burden would be thrown on the taxpayers of India as a whole as a direct result of the constitutional changes, the necessity for giving greater elasticity to provincial resources, the subventions of the deficit Provinces, and also the separation of Burma, *would impose a heavy strain on the finances at the Centre.*"*

The Solution.

The Act empowers the Federation to levy the following duties and taxes :—

- (1) Succession duties other than for agricultural land.
- (2) Stamp duties.
- (3) Terminal taxes on goods or passengers carried by railway or air.
- (4) Taxes on railway fares and freights. Power is given to the Federal Legislature at any time to increase such duties or taxes by a surcharge for federal purposes.

* Eddy and Lawton, p. 126.

Sec. 138 (1) authorize the levy of *taxes on income* other than agricultural income, but a prescribed percentage of the net proceeds is to be assigned to the Provinces and to the Federal States. The percentage is to be fixed by Order in Council. The White Paper proposed that a prescribed percentage, not being less than 50 per cent. nor more than 75 per cent. of the net revenues derived from taxes on income should be assigned to the Governor's Provinces. This arrangement with necessary modifications should also be extended to State members of the Federation.

Corporation Tax is included in the Federal Legislative List. The duties on salt, and federal duties of excise and export duties are to be levied by the Federation. One-half of the net proceeds of export duty on jute or jute products, or such greater proportion as His Majesty in Council may determine, shall be assigned to the Provinces of Federated States in which jute is grown.

No surcharge can be levied without the previous sanction of the Governor-General.

The Act has laid down certain principles but the final financial arrangement will rest on the recommendations of Sir Otto Niemeyer's enquiry.

IV. The Services of the Crown.

1. Defence Forces.

The Act provides that there shall be a Commander-in-Chief in India appointed by the Crown. His Majesty shall have control over the defence appointments. The Secretary of State, acting in concurrence with his Advisers, is to be the ultimate authority for deciding the conditions of service which are to govern the forces of the Crown in India. Indian defence will thus continue to be under the supreme control of the Secretary of State for India. The Act does not make any provision for the complete Indianisation of the Army within a specified time.

2. Civil Services : provisions for security.

As the Joint Committee were convinced that India for a long time to come will not be able to dispense with a strong British element

in the Services, so in the interests of India as well as of England, the services are to be given *reasonable* security.

So the Act provides that a member of the Civil Service holds office during His Majesty's pleasure. No such person shall be *dismissed* by any authority subordinate to the authority by whom he was appointed. No member shall be *dismissed* or *reduced in rank* until he has been given a reasonable opportunity of showing cause against the action proposed to be taken in regard to him. This provision shall not apply when a person has been found guilty of criminal charge.

The Secretary of State is to continue to make appointments to the Civil Services known as the Indian Civil Services, Indian Medical Service, etc.

Provision is made for the grant of *indemnity* for past acts. Further, provision is made for the protection of public servants against prosecution and suits.

Elaborate provisions are contained in the Act regarding the payment of pensions, their exemption from Indian taxation, and regarding the Family Pension Funds.

No proportion is laid down regarding the appointment of Indians *vis-a-vis* British officers.

3. Public Service Commission.

Federal and Provincial Public Service Commissions are to be established. The Chairman and other members are to be appointed by the Governor-General in case of the Federal Commission, and by the Governors in case of Provincial Commission. Each member of the Commission must have at least for ten years been under the services of the Crown in India. They are to conduct examinations, etc., for recruitment.

4. Communal Reservations in Services.

A Resolution of the Government of India, commonly known as "Communal Award No. 2" contains instructions that in Indian Civil Service and the Central and Subordinate Services to which *recruitment is made on all India basis*, a 25 per cent. of all vacancies to be filled by Indians should go to Muslim and 8½ to other minority communities. In cases of *recruitment by local areas*, 25 per cent.

should go to Muslims, 8 per cent. to Anglo-Indians and 6 per cent. to other minority communities.

V. Economic Provisions.

A. Commercial Discrimination.

Besides the special responsibilities of the Governor-General with regard to discrimination against British trade in India, the Act lays down elaborate provisions regarding commercial discrimination.

The Act provides that the passing of any law which would make British subjects domiciled in the United Kingdom or Burma or companies incorporated there, liable to greater taxation than they would be liable if domiciled or incorporated in British India, shall be invalid.

British companies are afforded special protection. The Act further provides that Companies incorporated in Great Britain and carrying on business in India would be eligible for any grant, bounty or subsidy payable out of the revenues of the Federation or of a Province for the encouragement of any trade or industry, to the same extent as Companies incorporated in British India. Ships registered in the United Kingdom are not to be subjected by law in British India to any discrimination whatsoever.

The Joint Committee recognise that these restrictions are unsatisfactory and the real solution must lie in a *convention based on reciprocity*. The Act lays down that if such a convention is entered into the provisions of the Act may be waived by Order in Council, so long as the Convention continues in force between the two countries.

B. The Reserve Bank of India.

The establishment of a Reserve Bank was made a condition precedent to the assumption of financial responsibility by the Federation. The Bank was to come into existence before the first federal ministry and it was to manage the currency and exchange. The Reserve Bank of India Act was passed in 1934.

C. Statutory Railway Authority.

The Federal Railway Authority shall consist of seven persons.

to be appointed by the Governor-General. At the head of the executive staff of the Authority there shall be a Chief Railway Commissioner, being a person with experience in railway administration, who shall be appointed by the Governor-General exercising his individual judgment, after consultation with the Authority. He is to be assisted by a Financial Commissioner.

Provision is made for the appointment by the Governor-General of a Railway Tribunal consisting of a President and two other persons. From this tribunal an appeal lies to the Federal Court.

VI. Amendment of the Constitution.

The Act itself can be amended only by Parliament. *The Statute of Westminster 1931 has no application to India.*

Sec. 308 provides machinery for amendments in certain specified respects. They are—

(a) The size and composition of the Chambers of the Federal Legislature or the qualifications of members may be altered but the proportions of seats between the Chambers, or of the British India and the Indian States can not be varied.

(b) The number of Chambers or the qualifications of members of a Provincial Legislature may be changed.

(c) In the case of women literacy may be substituted for any higher educational standard.

(d) The qualification of other votes may be amended.

The amendments require to go through a certain procedure before it is accepted by the Secretary of State with the consent of the Parliament.

VII. The Franchise.

The Act will enfranchise 14 per cent. of the total population as compared with the 3 per cent. under the old constitution, that is to say, it would give franchise to 350 lakhs of men and women compared with only 70 lakhs of men. Franchise is based on communal electorate.

CHAPTER XVIII.

The Judiciary.

I. Judicial Organization.

Growth of the Judicial System.

For the trial of cases between Europeans Mayor's Court were very early established by the East India Company in the three Presidency towns from which appeal could lie with the Government and in some cases to His Majesty-in-Council. The Mahomedan Rulers, on the otherhand, had their Courts of Law both Civil and Criminal.*

With the grant of the Dewani to Lord Clive in 1765, the administration of civil justice was transferred to the East India Company while criminal justice was left in the hands of Mahomedan judges. The system did not work well and Warren Hastings introduced the *district system of judicial administration*.

Under the district system the Collector was placed in charge of the district civil court, and was assisted by Hindu and Mahomedan assessors. From the district civil courts appeals could lie to the Provincial Courts of Appeal, from which again final appeals could lie to the Sudder Dewani Adalat.

Criminal justice continued to be administered by Mahomedan judges under the supervision of the Collector of the district and the final court of criminal appeal was the Sudder Nizamat Adalat.

JUDICIAL SYSTEM UNDER THE MOGULS.

* "Under the system all authority, judicial, fiscal and military were united in the same hands. The Subedar was the Viceroy appointed by the Emperor of Delhi to govern distant provinces. He had two capacities. As *Diwan* he collected revenue and supervised the administration of civil justice. As *Nazim* he exercised criminal jurisdiction and controlled the police. The highest criminal court was presided over by him as the *Naib Nazim*. The inferior criminal courts were presided over by Fauzders. Criminal law was exclusively Mahomedan while civil laws were either Hindu or Mahomedan." (Read Palande, pp. 281-82).

Next, the Regulating Act of 1773 introduced some judicial reforms. A Supreme Court of Judicature with a Chief Justice and three other judges were established in Calcutta in 1773, and later on in Madras and Bombay. The Supreme Court administered justice according to English Law while the Sudder Courts followed the principles of Hindu and Mahomedan Law. This led to great confusion. But the British did not prefer to interfere with the laws, customs and usages of the country. They very soon felt the necessity of codification of the Laws. The task was entrusted to Lord Macaulay, the first Law Member, and the two monumental works, the Indian Penal Code and the Criminal Procedure Code were the results of his labour.

In 1861, the three Presidency High Courts were established followed in later years (1911) by other Provincial High Courts. In the Non-Regulation Provinces, the Judicial Commissioners perform the functions of High Courts.

Various Laws have been codified into Acts. The ancient laws of the Hindus and Mahomedans have been recognised and they still hold good in matters relating to succession, inheritance, adoption, marriage, etc.

Judicial Committee of the Privy Council.

At the apex of the judicial system is the Judicial Committee of His Majesty's Privy Council in England to which the final appeal lies from the Indian courts. Both civil and criminal appeals from the High Courts lie to the Committee. The heavy costs involved in such appeals and their dilatory disposals, have aroused Indian opinion in favour of the establishment of a Supreme Court in India.

The Judicial Committee of the Privy Council is composed of the Lords of Appeal in ordinary and two Indian judges. In the hearing of an appeal at least four judges must sit. The Committee try civil appeals valued at not less than Rs. 10,000 and for which leave has been granted for appeal by the High Courts. Criminal appeals may also be preferred with such permission.

High Courts.

The next step in the judicial system is the High Court established at Calcutta, Bombay, and Madras by the Indian High Courts Act of 1861 and regulated by the Government of India Act of 1915. There are High Courts at Lahore, Allahabad, Patna and Rangoon. The maximum number of judges in any High Court cannot exceed twenty. The Indian Legislature cannot abolish a High Court without the approval of the Secretary of State in Council. The power to create additional High Courts is vested in the Crown. The judges hold office so long as they are of good behaviour.

Where there are no High Courts, their places are taken by Chief Courts, as in the case of Oudh. Where Chief Courts have not been established, their places are taken by Judicial Commissioners, as in the Central Provinces, N. W. Frontier Province, and Sind.

COMPOSITION OF A HIGH COURT.

A High Court is composed of a Chief Justice and a number of puisne judges. Additional judges may also be appointed by the Governor-General in Council. They are all appointed by the Crown. A High Court Judge must be either (a) a barrister, (b) an I. C. S. of at least ten years' standing with an experience as a District Judge for at least three years, (c) a subordinate Judge or a Judge of a Small Causes Court for at least five years, (d) or a High Court Vakil of not less than ten years' standing.

JURISDICTION OF A HIGH COURT.

The High Courts on grounds of jurisdiction may be divided into two classes, the Presidency High Courts and the Provincial High Courts. The latter have only *appellate jurisdictions*, i.e., of hearing appeals from the lower courts, while the former have both *original* and *appellate* jurisdiction. The Presidency High Courts of Calcutta, Bombay and Madras have jurisdiction within the limits of their own towns to try *in the first instance* certain civil and criminal cases. This is known as *original jurisdiction*.

A High Court has *powers of superintendence* over the lower courts under its jurisdiction in all administrative matters. It has

also powers of *direction*, e.g., transferring suits from one court to another, etc.

Powers of High Courts.

A High Court has also *powers of revision* over the decisions passed by lower courts to meet the ends of justice.

Powers of High Courts.

They have both original and appellate jurisdiction in civil as well as in criminal cases. They have original jurisdiction in Presidency towns in civil cases valued at more than Rs. 2,000 and in criminal cases which are committed to them by Presidency Magistrates. They have appellate jurisdiction in civil and criminal matters from the whole area of their jurisdiction and also in cases of appeals from the original side.

Inferior Civil Courts.

Of the inferior *Civil Courts*, there are three grades—the District Judge's Court, and the Munsiff's Court. The District Judge's Court is the chief Civil Court of original jurisdiction in the district. It has original, as well as appellate jurisdiction over subordinate Judges' and Munsiffs' Courts. The District Judge has control over all the lower Civil Courts in the district. The Courts of Subordinate Judges have the same original jurisdiction as the District Courts. The Munsiff's Courts can try cases valued at Rs. 1,000 and in some cases at Rs. 2,000. An appeal lies from the District Court to the High Court.

Small Causes Courts.

For trying petty civil suits there are in the Presidency towns, Presidency Small Causes Courts. In the mofussil, small causes are tried by the munsiffs.

Union Courts.

Union Boards try civil and criminal suits of very petty nature.

Criminal Courts.

One or more districts constitute a sessions division for which there is a *Sessions Judge*. He tries persons accused of graver offences with the help of jurors or assessors. An appeal lies from a Sessions Court to the High Court.

Below the Sessions Court are Courts of Magistrates. Magistrates are of the first, second and third class. They possess different grades of power. In Presidency towns there are *Presidency Magistrates*. In the districts there are District Magistrates. Some of them are *honorary*. Gentlemen of good social status and desirous of doing public work are selected to fill honorary offices. They possess the same powers as the stipendiary Magistrates in the corresponding grades.

Trial by Jury.

In our country only in criminal cases which are triable in sessions, the jury system obtains. Men who are not practising lawyers and are not acquainted with the intricacies of law are only appointed as juries. They are to decide questions of law. The juries are to decide whether the version of the accused or of the prosecutor is true to facts. Trial by jury is the rule in the original criminal cases in the High Courts.

In parts of the country where suitable jurors are not available, *assessors* are appointed. But while the verdict of the jury is generally binding on the judge, the verdict of assessors is only recommendatory.

In Sessions Courts, the Judge tries cases assisted by a jury whose number must not exceed nine or be less than five. If the judge disagrees with the jury on grounds of perverse or wrong verdict, he may refer the case to the High Court for final orders.

In the High Court trials, a unanimous and not a majority verdict is binding upon the judge. If the judge

disagree with the majority verdict then the alternative is to dismiss the jury and to order a retrial of the case by a fresh jury and a new judge.

Privileged Persons.

The following persons are not subject to the original criminal or civil jurisdiction of a High Court in respect of any offence committed in the discharge of their public duty except that of treason or felony :—

The Governor-General, Governor, Lieutenant-Governors, Chief Commissioners, members of the Viceroy's Executive Council, Ministers, the Chief Justice and the Puisne Judges of a High Court.

Law Officers.

The foremost law officer of the Crown is the Law Member of the Governor-General's Executive Council. Then comes the Legal Remembrancers who are in charge of legal affairs of provincial governments. In each of the three Presidencies there are Advocate-Generals who not only represent the Government in legal matters but are often called upon to advise the local governments. There are also sheriffs in the Presidency towns who look after important court duties and administer legal formalities.

Position of European British Subject.

In 1836, Europeans were first made amenable to the ordinary Civil Courts. The Criminal jurisdiction of the Courts was extended over them when the High Courts were established in 1861. In 1883 the Ilbert Bill was introduced to remove all restrictions on Indians in the matter of trying European Criminals. But the Bill encountered an unprecedented opposition and the Government yielded to the vehemence and adopted a compromise measure in 1884 by which while Indian Judges and Magistrates are to try European Criminals the latter was given the right to claim a mixed jury, not less than half of which should be Europeans. The Racial Distinction Committee which was appointed by Lord Reading pointed out the disabilities of Indian judges to try British European subjects as the result of which some of the distinctions have been removed.

No Separation of Powers.

In India the theory of separation of powers as far as the executive and the judiciary are concerned does not obtain. The Magistrate who is an executive officer and is the head of the police, himself sits in judgment upon an offender who has been apprehended by the police, his subordinates. This system, it is urged, leads to miscarriage of justice. But this system of vesting both civil and criminal powers in the same person obtains since the time of Warren Hastings. In spite of strong criticism of the system it still prevails on the ground that the Magistrate's actions are under the supervision of the District Judge as well as of the High Court. Moreover, it is argued that for the prompt and efficient administration of justice, a knowledge of the people and of the customs of the country are essential, and these qualities are generally expected to be possessed in abundance by the Magistrate and his subordinates. Not only expediency but the plea of economy is also advanced in support of the present arrangement.

Limited Jurisdictions of Law Courts.

We have already noticed that some high officials are privileged and are not subject to the original criminal or civil jurisdiction of a High Court in respect of any offence committed in the discharge of their duties. Many other subordinate officials cannot also be brought to justice without the previous sanction of the local government. These exemptions may, however, be justified on the principle "The King can do wrong," or on the principles of Administrative Law.

But this is not all. Formerly, no Court but a High Court could try a European British subject. To-day no Indian who is below the rank of a District Magistrate or a Sessions judge can exercise jurisdiction over European

British subjects. The latter can also claim to be tried by a jury one-half of whom must be Europeans or Americans.

Special Tribunals.

Under the Criminal Law Amendment Act of 1908, Special Tribunals consisting of three judges may be appointed by the Provincial Government or by the Governor-General for trying offences committed against the State.

Law Courts in India.

Civil Courts.

- (a) Judicial Committee of the Privy Council.
- (b) High Courts ; Chief Courts ; Courts of Judicial Commissioners.
- (c) District and Sessions Court.
- (d) Subordinate Judge's Court.
- (e) Courts of Small Causes.
- (f) Munsiff's Courts.
- (g) Union Courts.

Criminal Courts.

- (a) Judicial Committee of the Privy Council.
- (b) High Courts ; Chief Courts ; Courts of Judicial Commissioners.
- (c) District and Sessions Court.
- (d) Presidency Magistrate.
- (e) Magistrate's Courts, first, second and third class.
- (f) Honorary Magistrate's Courts.
- (g) Bench Courts.

CHAPTER XIX.

The Public Services.

Services may be classified under two categories, (a) the *Central Services*, and the (b) *Other Services*.

Central Services.

The Central services are under the control of central government, *e.g.*, audit and accounts, posts and telegraphs, income-tax services, etc. The Secretary of State also gives appointment in some cases.

The Other Services.

They include the (i) All-India Services, (ii) the Provincial Services, and (iii) the Subordinate Services.

The *All-India Services*, like the Civil Service, the Medical Service, etc., are recruited by the Secretary of State and they are called *Covenanted Services* in as much as the Secretary of State enters into covenants or agreements with the members of the services as to their pay and emoluments.

The *Provincial Services* relate to the subjects under provincial administration, *e.g.*, provincial police, medical, forest and other services. Provincial governments recruit their services. Though some of the executive services are recruited by open competitive examination, the reservation of posts on communal basis universally obtains.

The *Subordinate Services* are also recruited by provincial governments.

Demand for Indianisation.

The demand for Indianisation of the services is as old as the British administration. The Government of India Act

* Read, *The Services under the Crown* in the New Constitution, pp. 134-35.

(1919) gave promise of "*an increasing association of Indians in every branch of the administration.*" The letter of the promise seems to fall short of the specious declaration made in the Queen's Proclamation of 1858.

The Skeen Committee recommended the establishment of an Indian Sandhurst for the training of Indian commissioned officers. The recommendations have been followed in the very moderate form of a military college at Dehra Dun.

The Lee Commission (1924) recommended to raise the proportion of Indians in the Civil Service to 50 per cent in fifteen years and in the Indian Police in twenty-five years. The army is to take half-a-century to reach that percentage. Undoubtedly, some progress has recently been achieved.

The Public Service Commission.

The Government of India Act (1919) provided for the appointment of a Public Service Commission by the Secretary of State.

It is to consist of not more than five members with a Chairman. The following functions are assigned to it : (1) The recruitment of personnel for the public services and the establishment and maintenance of proper standards of qualification for admission to them. (2) Quasi-judicial functions connected with the disciplinary control, and protection of the services as regards their pay, allowances, pensions and their rights in general. The Commission in consultation with the Secretary of State is the final authority for recruitment of the All-India Services, the Central Services and the Provincial Services.

The Commission thus protects the members of the Services from executive and legislative interferences on the one hand, and preserves the high standard of efficiency as well as the purity and integrity of the Services, on the other.

THE PROBLEMS OF THE SERVICES.

They refer to *recruitment, pay, promotion and discipline.*

The principles that should be followed are *recruitment by competitive examination and security of service so long as one is of good behaviour, not excessive and extravagant but sufficient pay to keep one honest and the wolf away from the door, promotion by merit and seniority, and discipline enforced by quasi-judicial authority to punish members of the services as well as to re-instate and compensate them on appeal when they have been wrongly dealt with.*

THE PROSPECTS OF THE SERVICES.

"The Montagu-Chelmsford Report declared that any public Servant should be properly supported and protected in the legitimate exercise of his functions. To the Government of India or the Governor-in-Council must be left unimpaired the power to secure to a Civil Servant any rights and privileges guaranteed or implied in the conditions of his appointment."

Due to the liberal recommendations of the Lee Commission as to the pay and prospects of the services and of the sympathetic supervision of the Public Services Commission, the prospects of the services have much improved. The system of competitive examination seems also to attract the best qualified men.

Conclusion.

There are people who are still much enamoured of the efficiency of the services and are against extensive Indianisation. To them we may say in language of Lord Morley:—

"Our administration would be a great deal more popular if it were a trifle less efficient and a trifle more elastic. Our danger is the creation of a pure bureaucracy, competent, honorable, faithful, industrious, but rather mechanical, rather lifeless, perhaps rather soulless."

Public Services under the Crown. (*Under the Act of 1935. Read pp. 136-37.*)

CHAPTER XX.

Indian States.

Two Indias.

There are two Indias—the British India and the Indian India. The latter comprise 40 per cent of the area of India and only 23 per cent, of the total population. The inhabitants are not British subjects and the States are not British possessions but protected States.

There are numerous states beginning with an area of a few square miles with an income of a few thousands of rupees to bigger states, in some cases bigger than some of the British provinces. The latter include Mysore, Hyderabad, Baroda, Kashmir, Bhopal, Bikanir, Travancore and others.

The system of government is mostly autocratic and whimsical. The revenues belong to the princes and they are wasted a good deal.

The Status of Indian States.

Theoretically they are sovereign states but so far as they are in subordinate co-operation with the Paramount Power *they are in practice non-sovereign*. Through treaties and alliances they are in indissoluble relation with the British Crown and their rights and responsibilities rest upon them.

In return for protection both internal and external they have surrendered their sovereign power to the British Crown. They can neither wage war nor enter into relations with foreign powers.

They manage their internal affairs and have power over life and death of their subjects. They have their own police, courts of law and the apology of an army. They manage their finances, railways, post office, etc.

In each bigger state there is a British Resident who stands between the Crown and the Princes and is the official adviser. Virtually he is the actual ruler.

The Government of India on behalf of the Crown can intervene in the administration of the Indian States on grounds of misrule, incompetence and disloyalty. Intervention may take place on

grounds of (a) interests of the British Empire, (b) of the Indian Empire, (c) of the rulers, and (d) of the state subjects.

When the Government is convinced that there is misgovernment, irrespective of the wishes of the State's subjects the ruler is given the alternative of a Commission of Enquiry into the affairs of the State or a voluntary abdication. Hitherto, no prince offered to accept the humiliating alternative of a Commission of Enquiry but voluntarily abdicated in favour of his successor.

The increasing autocracy of the Residents have induced the Princes to accept the alternative of joining the proposed Indian Federal Government at an imminent risk of their autonomy. Some forms of checks upon the autocratic power of the Princes, however, are salubrious for the interests of all parties concerned.

Nepal is an independent state (Hindu) friendly to the British. It is an Indian State in the proper sense of the term and not a mere vassal State as the so-called Indian or Native States are.

The Chamber of Princes (Narendra Mandal).

There is a Chamber of Princes constituted with the purpose of discussing questions of common interests to the Indian States. It elects a Chamber and a Standing Committee of six members. This Chamber has however failed to protect those princes who happened to displease the Indian Government.

The Chamber is interested in questions which are of common interest to the Princes.

While British public opinion is in favour of dragging the Princes into an Indian Federation in order to give a new lease of life to the autocratic form of Government obtaining in India, many Indian politicians favour the inclusion of the Princes within the Federation in the hope that their closer and intimate relations with the democratic Governments in British India may lead ultimately to the growth of responsible Government in the Indian States. The apprehension of such a consummation is making many princes chary to join the Federation. The British Government, on its part, makes it a condition in the White Paper that unless the Indian Princes join the Federation responsible government at the centre would not be conceded.

Indian States in the Federation. (Read, p. 42.)

CHAPTER XXI.

The District Administration.

A province is divided for administrative purposes into a number of divisions each of which is put under a Commissioner. Each division in its turn is subdivided into a number of Districts and are put under District officers or Magistrates. A district is the unit of government. A district, again, for the expediency of administration is divided into a number of sub-divisions.

The Commissioner.

He is a high revenue official and has no judicial duties to perform. He controls and supervises the District Collectors. He is the hyphen which joins the District officers on the one hand and the provincial government on the other.

The Civilian Collector.

“The backbone of the British Administration in India,” says Anderson, “is the District Officer, known as the Collector in the Regulation, and the Deputy-Commissioner in the Non-Regulation Provinces.” The Collector is generally a member of the Civil Service and is placed in charge of a District. The name “Collector” arises from his duties as a collector of revenue.

The average size of a district extends about 4500 sq. miles with an average population of a million souls. The districts number 271 in all and vary in size and population. One district, the Vizagapatam district of Madras, has an area of more than 17,000 sq. miles with a population of over 3 millions and exceeds Denmark in both respects. In Bengal, the Mymensing district has a population exceeding that of Switzerland.

HISTORY OF THE CIVIL SERVICE.

Up to 1853 these posts used to be filled by nomination by the Court of Directors. Due to public agitation in England against the filling of such responsible offices by the nomination of worthless

favourites, competitive examination was introduced in that year. In 1879 the "Statutory Civil Service" was introduced into India to take by nomination a number of Indians (one-sixth of the total appointments) into the Service. But the experiment was disappointing and the system was abolished. In 1886 the Public Service Commission presided over by Sir Charles Aitchison recommended the filling up of a number of "listed" posts of the Civil Service by members of the Provincial Service through promotion. The insufficiency of appointments prejudiced public opinion and in 1913 the Islington Commission was appointed which recommended that a strong British element in the Services is to be maintained while at the same time Indianization is to be pushed on. But Montagu and Lord Chelmsford went ahead of the recommendations and proposed that recruitment in England was to be supplemented by a 33 per cent. recruitment in India.

The members of the Civil Service are recruited by (i) a competitive examination in England, (ii) a competitive examination in India followed by a two years' training in England, (iii) by nomination in India, (iv) by promotion from the provincial Civil Service, and (v) by selection from the bars. Recently, the system of reservation of posts for British candidates has been introduced. The provisions of the Government of India Act safeguard the interests of the services fully.

The Duties and Powers of a Collector Magistrate.

As a *Collector*, he is the head of the revenue organization and as *Magistrate* he exercises general supervision over the inferior courts and in particular directs the police work. *He combines in himself the powers of the executive and the Judiciary.*

As a *Collector*, he administers the revenue, manages Government estates and Court of Wards estates, is responsible for all matters affecting the welfare of the cultivators, and administers excise, stamps and income-tax revenues. He furnishes returns of crops, prices and other statistics.

As a *magistrate*, he has certain judicial functions, *e.g.*, the administration of criminal justice within his district and the exercise of supervision over inferior Courts. He also

directs the police work as he is responsible for the maintenance of peace and order within his district. As a result, the executive functions become combined with judicial functions. As the head of the police, the magistrate prosecutes, as a judicial officer, he tries the offender.

The Magistrate is the representative of the Government in his district. *He has multifarious duties.**

He supervises the jail administration and also the work of the Executive Engineer and of the Civil Surgeon, of the District Inspector of Schools and of the Forest Officer.

He also guides and supervises the working of self-governing bodies like local boards, district boards and municipalities.

To the man in the street he is the *Sircar*. He has in him great potentialities of good and evil. If he be a man of tact, initiative, sympathy and imagination, he can work wonders. But where the officer is unsympathetic to Indian aspirations no good can come out of his administration. The multiplicity of his work helps to degenerate administration into a mere routine work. The growth of local self-government has relieved him of many supervising duties. We have already noted the arguments for and against the absence of separation of powers in the Indian administration.

Junior Executive Service.

The district is subdivided into smaller areas or sub-divisions. They are left either in charge of junior Indian (Assistant Collector), or Provincial (Deputy Collector) or Subordinate (Sub-Deputy Collector) member of the Civil Service. Still smaller sub-district units are administered by men who are known in some provinces as

* "He should be a lawyer, an accountant, a financier, a ready writer of State papers. He ought also to possess no mean knowledge of agriculture, political economy and engineering. The vicissitudes of trade, the state of currency, the administration of Civil justice, the progress of public works must engage his attention as much as protection of life and property and maintenance of peace."

Tahsildars, Mamlatdars or Muktyarkars, each of whom has a Taluka, or a group of villages under his charge. These latter officials have on a small scale much the same duties as the District officers to whom they are responsible.

Lastly, at the basis of the system comes the village officials, *e.g.*, the headman, the accountant, the village watchman, etc.

The Board of Revenue.

Under the present constitution, Land Revenue has been made a provincial subject though the Revenue and Agricultural Department of the Government of India retains the right of supervision. In the Provinces, the land revenue is administered either by the Divisional Commissioners or by the Board of Revenue. In some both sorts of authorities do exist, *e.g.*, in Bengal. Where there do not exist Divisional Commissioners, *e.g.*, in Madras, there are four members of the Board, otherwise only two. The Bengal Board of Revenue reconstituted in 1913 consist of one member only. The Local Government may appoint with the sanction of the Governor-General an additional member. The members all belong to the Civil Service.

The Board is the final authority relating to the administration of land-revenue in the province. It has full revisionary powers and is the final administrative court of appeal in revenue matters. The Board certifies the final publication of Record of Rights, sanctions the operation of survey and settlement works, supervises and controls all proceedings and orders of Revenue officers, and controls the administration of Ward estates.

QUESTION.

1. Describe, as briefly as you can, the functions of a Collector-Magistrate in a Bengal district (Cal. 1933).
2. Write notes on the Board of Revenue (Cal. 1933).

CHAPTER XXII.

LOCAL SELF-GOVERNMENT (FOR RURAL AREAS).

Village is the Rural Unit.

Local Self-Governing institutions did exist in ancient India on an elaborate scale. Megasthenes found them to be in a very well-developed and well-organized state, but instead of reviving and reforming the indigenous system, the British have introduced their own organization to supplant the old.

Local Self-Government : its meaning.

By local government, we understand in India, a provincial government, *e.g.*, the Governments of Bengal, Bombay, U. P., or Madras. On the other hand, Local Self-Government implies *the management of local affairs* (such as water supply, construction and maintenance of roads, provision for primary education, etc.) *by local people of a definite local area*, *e.g.*, a district, a sub-division, a municipality, a village, or a group of villages.

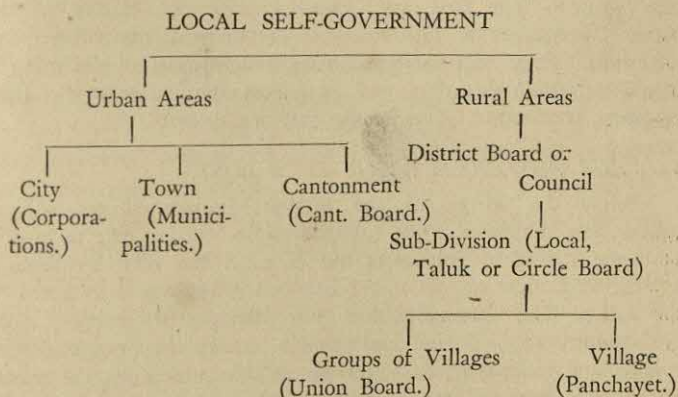
Two Categories of Local Self-Government : Rural and Urban.

The general scheme of local self-government organization in India may roughly be divided according to two categories, rural and urban. In the *rural areas* we start from the village Chaukidary Panchayets, or groups of villages (Union Boards), to the Local Board, the jurisdiction of which extends over the Sub-division or its equivalent, and finally to the District Board which extends over the whole of the administrative district. In Bengal we have District and Local Boards corresponding to which are the District and Taluk Boards in Bombay and Madras, and District and Sub-District Boards in U. P.

In the urban areas we have got municipalities. In the case of the three Presidency towns, the administration of

local self-government is in the hands of municipal Corporations. In each of them there are Improvement Trusts and Port Trusts. In every other town there is a municipality. In Cantonments there are Cantonment Boards.

The following table will show the organization of local self-government in India in both Rural and Urban areas:—



The Village : the Smallest Rural Unit.

Throughout the greater part of India, the village constitutes the primary territorial unit of local self-government organization, and from the villages are built up the larger rural self-governing entities—tahsils, sub-divisions, districts.

TYPES OF VILLAGES.

There are two types of villages, the 'severalty' or 'Raiyatwari' village, which is the prevalent form outside Northern India, and the "Joint or Landlord village" which obtains in the United Provinces, the Punjab and the Frontier Province.

In the *Raiyatwari* village, the village government is vested in a hereditary headman who is responsible for law and order, and for the collection of the government revenue.

In the *Landlord* villages, the village government was originally administered by the 'Panchayet' or group of heads of superior families.

In later times one or more headmen known as *Lambardar* had been added to the organization of the present village in its dealings with the local authorities. This type of village represents the famous village communities as described by Sir Henry Maine.

VILLAGE COMMUNITIES.

In describing the *village communities*, Mountstuart Elphinstone thus wrote:—"The first and foremost important feature of the Native Government in the Deccan is the division into villages and townships. These communities contain in miniature all the material of a State within themselves, and are almost sufficient to protect their members, if all other Governments were withdrawn."

VILLAGE AUTONOMY: WHY IT IS LOST.

Before the advent of the English, Indian villages enjoyed considerable autonomy as the ruling dynasties did not care to meddle with the individual cultivators but collected the revenues through a large landholder and saw that law and order was maintained by the latter. This autonomy has now disappeared owing to the establishment of local civil and criminal courts, the organization of revenue and police systems, the increase of communications, the growth of individualism, and the operation of the individualistic raiyatwari system, which is extending even to the North of India. Nevertheless, the village remains the first unit of administration: the principal village functionaries—the headman, the accountant and the village watchman—are largely utilised and paid by Government, and there is still existing a certain amount of community of feeling and interests.

The System of Rural Self-Government.

I. Village Panchayets.

It is the lowest rung in the ladder of self-governing institutions in our country. It is the primary territorial unit of government organization in India.

The revival of the Panchayet or the village-council tribunal (composed of a group of heads of superior families or local elderly gentlemen of proved integrity) system was strongly recommended by the Decentralisation Commission

of 1908. Since then the Punjab Government has passed a village Panchayet Act which has established a *system of Councillors* elected by the tax-payers to whom certain local matters, including judicial power, both civil and criminal of a minor character, have been assigned. In Bihar and Orissa, Bombay and Bengal, similar Acts have been passed.

II. Union Board.

The next higher step is the Union Board. But practically it is in essence the same thing as the Panchayet, the point of difference being mainly the size. The Village Panchayets have not everywhere been replaced by the Union Boards. Any Village or a group of villages may now be constituted into a Union.

The Board is to replace the existing Chaukidari Panchayets and the Union Committee and is to deal with the schools and dispensaries. Its jurisdiction is to extend over village police, village roads, water supply, sanitation, primary schools and dispensaries. Its jurisdiction is to extend over a group of villages. A Board shall consist of not less than six and not more than nine-members. The members are to be both elected and nominated (not more than one-third by the District Magistrate). It is to elect its own Chairman. *abolished now.*

BENGAL SELF-GOVERNMENT ACT OF 1919.

Bengal Act V of 1919 introduced the new system of self-government by a creation of village authorities vested with the power and duties necessary for the management of communal village affairs. The village authorities are known as Union Boards and are entrusted with the power of self-taxation. (1)

The act also empowers Government to create out of the members of the Union Boards, Village Benches and Courts for the trial of petty Criminal and Civil cases arising within the Union. The Act has been extended to all Districts in the Presidency except to Darjeeling, Chittagong, and Malda and since the passing of the Act more than 4,500 Union Boards have been constituted. *But* (2)

Union Boards are very unpopular in the country in as much as they possess unlimited power of taxation but no real power to improve the condition of the people and are tied to the apron string of the Government. The system retains all the disadvantages and defects of the Panchayet system. The Boards maintain the village police but have no control over it. So people prefer the old Panchayet system with its restricted power of taxation. The impression that government oftentimes has made this body the vehicle for political propaganda has made it still more unpopular.

It is estimated that out of a total income of more than Rs. 80 lakhs, the Boards spend Rs. 60 lakhs on police and only one lakh each on public health and dispensaries, a lakh and a half on drainage and conservancy, a little over three lakhs on education and seven lakhs on water supply.

FUNCTIONS OF UNION BOARDS.

The functions of the Union Boards include the upkeep and management of:—(1) Primary schools; (2) Dispensaries; (3) Village Roads and Bridges; (4) Pounds; (5) Village sanitation, conservancy, drainage, management of fairs and *melas*; (6) Village water supply; (7) Administration of village justice; (8) Registration of births and deaths, etc. The maintenance of village peace with the help of Chowkidars and Dafadars is one of its most important function.

FINANCE.

It derives its income through the levy of union rates and also from grants from the Local and District Boards. But the fund so available is small, the major portion of which again is swallowed up in the maintenance of village police.

III. Local Boards.

The next higher grade of local self-government is the Local Board, variously called, Taluk Board or Sub-District Board, and Circle Boards. It extends over the whole of a sub-division. It has wider powers than the Union Board.

But it is merely a subordinate agency of the District Board. It has no independent sources of revenue and gets grants from the District Boards.

The Local Boards have an elected majority of members with an elected non-official chairman. In Assam, there being no District Boards, Local Boards perform the identical functions.

IV. District Boards.

For every administrative district there is a District Board. It consists of nominated and elected members. Status and property are qualifications for membership. The District Magistrate formerly used to be the ex-officio President of the District Board within his jurisdiction. But in almost all cases the chairman is now elected. Ninety-six per cent. of the members are Indians, the percentage of officials is only eleven, and the percentage of elected members is 62.

THEIR FUNCTIONS.

In addition to maintaining local communications, they provide for (1) sanitation, (2) drainage, (3) public works (roads, bridges, markets), (4) vaccination, (5) medical relief (dispensaries and hospitals), (6) famine relief, and (7) education, specially primary.

THEIR SOURCES OF FINANCE.

The chief source of revenue is divided mainly from cess on land (public work cess), a share of the Roads Cess, and from pounds and ferries and grants from the Provincial Governments. The income of 26 District Boards in the province totals Rs. 1.4 crores and the average income in each District Board is Rs. 5½ lakhs. The accounts are periodically audited by government officials.

The 26 District Boards in Bengal with a population of about 4½ crores have an income of about a crore and a half of which only 8 per cent. (i.e., half an anna per head) are spent on public health and 31 per cent. on public works.

The incidence of taxation per head is a little over 5 as.

History of Village Self-Government.

Lord Mayo first emphasized the importance of the development of local self-government in India. But it was Lord Ripon who first laid the foundation of the present system. He laid down the policy : "No real development of self-government could be expected if the local bodies were subject to check and interference in matters of detail." To give effect to the above policy a number of municipalities and rural bodies were constituted in the Province. But official tutelage which was condemned by Lord Ripon became the order and naturally dwarfed the growth of self-governing institutions.

The Royal Commission on Decentralisation recommended the liberalisation of the constitution of local bodies, the relaxation of official control and the curtailment of their influence and activities. The Government of India was, however, slow to act upon the recommendations and as late as 1915, it issued a Resolution promising to confer more powers upon these institutions.

The Report of the Indian Constitutional Reforms of 1918 clearly stated that "there should be as far as possible, complete popular control in local bodies and the largest possible independence for them of outside control." Simultaneously with the publication of the Montagu-Chelmsford Report, the Government of India published a resolution which stated :—"The object of local self-government is to train the people in the management of their own local affairs and that political education of this sort must, in the main, take precedence of considerations of departmental efficiency. Except in cases of really grave mismanagement, local bodies should be permitted to make mistakes and learn by them rather than be subjected to interference either from within or from outside."

QUESTIONS.

1. Briefly describe the organization of rural self-government in Bengal. (Cal. 1927).
2. Describe briefly the constitution and functions of the District Boards in Bengal. (Cal. 1928).
3. How far do Union Boards help to solve the rural problems of Bengal. (Cal. 1928).
4. Indicate with explanatory notes the powers and duties of a District Board, of a Municipality, of a Local Board and of a Union Board. (Cal. 1931).

CHAPTER XXIII.

MUNICIPALITIES (FOR URBAN AREAS).

History of Municipal Self-Government.

The first Municipal Corporation was started in Madras in 1687 by a Royal Charter granted by James II. The Acts of 1842 (Bengal) and 1850 created municipalities in India. The Acts provided for the appointment or wholesale nomination of commissioners to manage municipal affairs, and authorized the levy of various taxes. Under such circumstances, the progress of self-government was negligible.

Substantial progress in the matter dates from the year 1875. Between 1871 and 1874, new Municipal Acts were passed in the various provinces, which among other things extended the elective principle.

During the Viceroyalty of Lord Ripon, Acts were passed (1883-84) which greatly altered the constitution, powers, and functions of municipal bodies, a wide extension being given to the elective system, while independence and responsibility were conferred on the committees of many towns by permitting them to elect a private citizen as Chairman. Scope was also given to increase municipal resources, and financial responsibility was conferred by transferring some items of provincial revenue to its management. The same general principles are still adhered to this day.

But partly due to the retention of strict official vigilance and control and partly due to the limited scope of activities under the existing Acts, local self-governing institutions did not furnish the requisite training necessary for running popular governments. So the inauguration of the Reforms did not find the people prepared. As a result we find that the training in Self-Government in India instead of preceding popular government has rather succeeded it.

Growth of Municipalities.

There are some 780 municipalities in British India having jurisdiction over a population of about 200 lakhs. Of these municipalities more than 700 have got less than 50,000 population each, while the other 80 have got more than that number. More than 20 per cent. of the population of Bombay live within municipalities, while only 2 per cent. is the quota of Assam.

Acts Constituting Municipalities.

Municipalities have been constituted by two kinds of Acts, (a) by Acts of the Provincial Governments creating Municipalities for its urban areas, and (b) by Special Acts creating the Presidency Municipalities of Calcutta, Bombay and Madras. In municipalities local sub-divisions are known as Wards which form the units of representation.

How a Municipality is administered.

The Municipal Government is vested in a body of Commissioners or Councillors. The latter are partly elected and partly nominated (generally 33 per cent). Nomination is used mainly for the representation of minorities and of persons of proved ability and integrity who are willing to render public service but are unwilling to fight the elections. Ex-officio members number on the average only 7 per cent. Election rules are framed by Provincial Governments, and residence, the age of majority and property qualifications constitute the membership qualifications.

Three years are the maximum length of life of a Municipal Committee. The executive consists of a Chairman and a Vice-Chairman. The powers of the chairman may be delegated to the vice-chairman. The government reserve the right of suspension of a municipality in cases of gross mismanagement, abuse of power, and neglect of duty. The Provincial Government exercise its function through the District Magistrate (and also through the Divisional Commissioner) to whom all proceedings of the Municipality are to be regularly despatched. Though the Acts reserve considerable power to the Provincial Governments, the modern tendency is to relax that power as much as possible.

Functions of Municipalities.

They include *public safety*, *health*, *commerce* and *education*.

(a) Public Safety.—They include the construction, upkeep, cleansing, watering, naming and lighting of streets

and roads; the protection from fire and from dangerous buildings, and the regulation of public nuisances and dangerous trades.

(b) *Conservation of Public Health*.—The preservation of public health—principally with reference to the reclamation of unhealthy areas, prevention of epidemic diseases, vaccination, sanitation, drainage and the provision of medical relief through hospitals, dispensaries, supply of midwives, etc., the construction of tanks, washing places, bathing places, parks, etc., comprise an important function of municipalities.

(c) *Commercial Undertakings*.—Water supply, gas and electric supply, the construction and maintenance of bazars, crematoriums, tramways and bus services, etc., are financed and managed by corporations.

(d) *Promotion of Education*.—Education—the maintenance of middle or secondary schools, colleges, libraries, museums, social service exhibitions and particularly the propagation of *primary education*, comprises one of the important functions of municipalities. Municipalities make lump grants to schools within their jurisdiction. In some, they themselves start and maintain free primary schools. The Calcutta Corporation maintain more than 350 free primary schools and give financial aid to another 645 schools.

Principal Sources of Municipal Finance.

The principal sources of municipal revenue are:—

- (a) *Octroi* duties on animals or goods, or both, brought within municipal limits for consumption or use.
- (b) *Tolls* on ferries, bridges and metalled roads.
- (c) *Tax* on buildings, lands and holdings.
- (d) *License tax* on trades, professions, callings and amusements.

- (e) Water, lighting, drainage and conservancy taxes.
- (f) Tax on vehicles, boats, animals etc.
- (g) Tax on circumstances and property.
- (h) Tax on private markets.

Income and Expenditure.

Two-third of the municipal revenue is derived from taxation and the rest is derived from municipal property and other sources. Of the heaviest expenditure heads, conservancy absorbs 17 per cent. and public works 14 per cent. of the income.

The incidence of taxation per head of the population in Bombay City is Rs. 12.66, in Calcutta it is Rs. 10.01, in Madras City it is Rs. 3.9, in Bombay Presidency it is Rs. 2.52, in Bengal it is Rs. 2.24 and in Madras Presidency it is Rs. 1.68.

Bengal Municipalities.

The Bengal Municipal Act has been recently amended. Though the new amendment has retained the system of joint electorate, it has provided for the reservation of seats for the minority communities in different areas. The amendment purports to have conferred more autonomy on the municipalities. The proportion of elected members has been raised from two-thirds to three-fourths and in some instances to even four-fifths of the whole house (*e.g.*, in the cases of Howrah, Dacca and Chittagong municipalities). In Madras the nomination system does not prevail.

Bombay Municipalities.

The City Municipalities Act of 1926 has provided more adequate basis for municipal administration in the larger cities of the Bombay Presidency. The larger Municipalities are styled Municipal Boroughs and number 29 in all. Their executive have been furnished with larger powers than before. The franchise has also been largely extended.

Three Presidency Corporations.

There are three Presidency Municipalities created by special Acts. "The Corporation of Calcutta, Bombay and Madras have been

constituted each under a separate statute and each with its own specific powers and privileges. The Councillors, who vary in number from 106 in Bombay to 61 in Madras, are, with the exception of a small number of government nominees, elected on a fairly wide franchise varying from 10 per cent. of the population in Bombay to 5 per cent. in Madras."

The Corporations to-day enjoy a varying degree of autonomy. The Calcutta Corporation is clothed with the largest powers. It elects its own Mayor and Chief Executive Officer and the proportion of nominated to elected members is negligible. The powers of the Madras Corporation are comparatively the narrowest. The Executive Officer in Madras is nominated by the government. Between the two comes the Corporation of Bombay.

The Corporation of Calcutta.

Calcutta is the second city of the British Empire. Its population exceeds 21 lakhs (1941). Its revenue income (Rs. 2½ crores) equals that of the Governor's province of Assam.

The municipal government of Calcutta is governed by Act III of 1923 which aimed to make the Corporation *paramount and autonomous in matters relating to municipal administration*. It is the handiwork of the late Sir Surendranath Banerjea. Its first Mayor was the late Deshbandhu Chittaranjan Das. The Act has been amended in 1933 and 1939. A fresh Act is, again, on the legislative anvil which is provoking bitter controversy.

Constitution of the Calcutta Corporation.

✓ Reg. C. Cor.

Under the Amended Act of 1939, the Corporation of Calcutta is composed of 93 Councillors (of whom 85 are elected and 8 are nominated) and 5 Aldermen :—

- (a) 47 are elected from general constituencies, of whom 4 must belong to scheduled castes.
- (b) 22 Muslims are elected by separate electorates.
- (c) 2 Anglo-Indians by Anglo-Indian constituency.

(d) 12 by special constituencies : Bengal Chamber of Commerce 6, Calcutta Trades Association 4, Calcutta Port Commissioners 2.

(e) 2 by labour constituencies.

(f) 8 are nominated by the Government of Bengal, of whom 3 must be from scheduled castes.

(g) 5 Aldermen are to be elected by the 93 Councillors (both elected and nominated) at their first meeting.

The Corporation Executive.

The Calcutta Municipal Act provides for the appointment of a Mayor, a Deputy Mayor, a Chief Executive Officer, and two Deputy Executive Officers. *All of them are to be elected or appointed by a majority of votes in the Corporation.* The Mayor and the Deputy Mayor are elected annually by Councillors and Aldermen from amongst themselves. They hold honorary posts. The Mayor presides over Corporation meetings. The Chief Executive Officer and Deputy Executive Officers should not be councillors of the Corporation, and are to be elected. The appointment of the Chief Executive Officer (and other statutory officers) is subject to the approval of Government. He is in charge of the administrative work. Other statutory officers include the Chief Engineer, the Chief Accountant, the Health Officer and the Secretary.

Franchise.

The franchise has been extended by reducing the voting qualifications, specially with regard to property. Plural voting has been abolished. The women have been enfranchised.

* The Calcutta Municipal Act of 1923 was amended in 1933. It abolished the separate electorates for the Mahomedans and increased the number of Muslim Councillors from 15 to 21. The Act has been further amended with a view to subdue the Congress element. It empowers the local government to conduct financial audit, to levy 'surcharges' on Councillors for unauthorised and indiscreet expenditure

Corporation Income.

The Corporation derives its income mainly from (a) The *consolidated rates*. The rate is now assessed at 20 p.c. of the annual value of land and buildings ; (b) taxes on professions, trades and callings ; (c) revenues from markets and other Corporation properties, and (d) taxes on animals and carriages.

Corporation Functions.

THE CHIEF FUNCTIONS RELATE TO (1) PUBLIC HEALTH, (2) PUBLIC SAFETY, (3) AND PROMOTION OF EDUCATION.

The Corporation provides for the supply of water, both filtered and unfiltered, appoints inspectors to prevent adulteration of foods, fights epidemic diseases, opens dispensaries in every Ward and co-operates with the Ward Health Committees, provides for conservancy and other sanitary arrangements, opens and maintains markets, provides for drainage, arranges for the supply of midwives, public latrines, bathing places, etc., destroys mosquitoes and other pests, etc. To provide against fire, it maintains fire brigades. In the field of education the achievements of the corporation is very striking. It has increased the number of free primary schools from only 19 in 1923 to about 250 in 1941.

The ideal of a nationalist Corporation.

Deshbandhu Chittaranjan has laid down the following programme for the Calcutta Corporation: *free primary education, free medical relief for the poor (free dispensaries and hospitals), free maternity homes and free milk kitchens for the children of the poor, cheaper food and milk supply, abundant supply of filtered and unfiltered water, improvement of bustees and free housing of the poor, improvement of city communication and cheaper city administration.*

and to refuse sanction to employ officers who have been punished of crimes committed against the state. It has also reintroduced separate electorates for the Mahomedans. The depressed class Hindus and the Anglo-Indians have also been given representation through separate electorates.

Deshbandhu did not live long to push his programme to a successful issue. But much has been achieved since then. The Corporation is imparting free education to 36,000 children in the city and altogether about one thousand schools are getting financial help from it: Child and maternity clinics and Ward Health Committees are also doing yeoman's service. Transport has improved. The Health Department is successfully combating the seasonal epidemics and strenuous attempts are being made to improve water supply. Self-Government, however, has its shortcomings. But we should not forget that self-Government is better than efficient Government.

THE BOMBAY CORPORATION.

It consists of seventy-two Councillors, of whom 16 are nominated. The President is elected by the Councillors from amongst themselves. The Chief Executive authority is the Municipal Commissioner, who is a nominee of Government. Municipal functions include lighting, water-supply, maintenance of roads, the disposal of sewage, provision for education, etc., as in the Calcutta Corporation. Its sources of revenue are similarly derived from municipal rates and taxes on house property, octroi, water rates, municipal property, etc.

Improvement Trust. 1912 (was created in 1912)

To do away with the "skulk behind the fringe of palaces" and the "terrible daily sight of all those vast fetid breeding-houses of death," Improvement Trusts have been constituted in the cities of Calcutta and Bombay,—Cawnpur, Lucknow, and Allahabad. Other cities have also followed suit. Through their activities great social improvements have been brought about and "fresh air and sunlight have been admitted to places which formerly were pregnant with disease and immersed in squalor."

Cantonment Boards.

Urban areas where His Majesty's troops are quartered and stationed are known as Cantonments. Elected cantonment Boards with an official chairman carries on the admi-

nistration. The final control, however, rests with the Army Department.

Port Trusts of India.

The administration of the affairs of the major ports of India like Calcutta, Bombay, Madras, Karachi, Rangoon and Chittagong is vested by law in bodies known as Port Commissioners. They possess wide powers and the European element predominates in their composition. They administer the ports, manage the revenue and the expenditure, provide for dock accommodation, carry on dredging operations, run ferry steamers, maintain harbours, erect jetties and warehouses, pilot the incoming vessels, and compile traffic figures.

The Calcutta Port Commission is composed of six members elected by the Bengal Chamber of Commerce, one by the Calcutta Trades Association, three by the Bengal National Chamber of Commerce, one by the Indian Chamber of Commerce, one by the Calcutta Municipal Corporation and five nominated by the Government. The Chairman and the Deputy Chairman are necessarily Europeans. The income amounts to nearly Rs. 3 crores a year.

Municipal Administration and Efficiency.

It is said that a high standard of ability, efficiency and honesty is required for successful municipal administration. In urban areas in India it has proved signally successful. In areas where they have met with failures, the cause may not be traced to lack of ability, efficiency and honesty but to *insufficiency of powers entrusted to the local self-governments and the insignificant financial support which they received in the hand of the government.* In the absence of

* THE CALCUTTA IMPROVEMENT TRUST was created in 1912 to provide for the improvement and extension of Calcutta. It has opened roads, built parks, removed congestion, helped to improve communication, and expanded the town. It has borrowed about Rs. 2½ crores to meet its obligations and the main sources of its revenue come from the sale of surplus and improved lands, and from 2½ per cent. of the Corporation revenue, and terminal tax.

responsibilities, efficiency and initiative lie dormant and can never grow.

OFFICIAL DIAGNOSIS: CAUSES OF INEFFICIENCY.

The Decentralisation Commission of 1908 opined that the want of success may be attributed to two causes, *lack of real powers and responsibilities and the wrong method of representation*. Similarly, the Montford Report admitted that the prolonged retention of the official element "*has impeded the growth of initiative and responsibility*".

It advocated that "*there should be complete popular control in local bodies and the largest possible independence for them of outside control*." Simultaneously, the Government of India published a resolution which stated:—"The object of local self-government is *to train the people in the management of their own local affairs* and that political education of this sort must, in the main, take precedence of considerations of departmental efficiency. Except in cases of really grave mismanagement *local bodies should be permitted to make mistakes and learn by them rather than be subjected to interference either from within or from outside*."

Causes of failure of Local Self-Government.

(1) *Indolence*. This is a chief hindrance to good citizenship. The magnitude of the task, the unwillingness of people to be embroiled in a thankless "no man's business," and the inadequacy of real power entrusted to local self-governments, often lead better class of people to fight shy of local self-government.

(2) *Official interference and undemocratic constitution*. A bad system of representation has led to the need of official control, and official interference has engendered a spirit of irresponsibility and a loss of initiative. A defective system of representation has led to the election of corrupt and undesirable representatives.

(3) *Paucity of education* among the toiling millions and the unnecessary intricacies and checks and balances have also made local self-government unpopular among the

better class of people. Education alone can foster the right sense of civic consciousness.

(4) *Unwieldly sizes* of Local and Union Boards and the patronization by lower grade government officials of the professional hangers on them have made local self-government unpopular to respectable citizens. Real responsibility, free scope to work and a policy of non-interference, on the one hand, and a spirit of social service, self-help and dynamic energy on the other, can alone make for success.

In addition to those causes we may add that our agricultural life has made us fatalistic and have killed in us the spirit of self-help and initiative.

Begin with the Village.

Though urban self-government in India has earned its laurels, specially in the Calcutta Corporation and in other big towns of India, we must not forget that India is a land of villages and more than 90 per cent. of the population live in them. The village communities of old also bear testimony to the fact that 'the people of India are quite capable of administering their own affairs and the municipal feeling is deep-rooted in them.' But the past has become the past. Absenteeism has become too common. Preventible diseases like malaria, cholera, kala-azar, small-pox and beriberi are taking their tolls in millions. Foreign competition, cheap communication and western tastes have killed age-old village industries. So poverty and illiteracy have become the order of the day. Villagers need wealth, health and education. The growth of civic consciousness can alone rehabilitate the villages and save from extermination the rural population. (Through education mainly, the lost wealth and health can be regained.) Organization is the method through which the aim is to be approached.

Organizations may be *voluntary* like the Ramkrishna Mission, Seva Samities, etc., may be *semi-statutory* like the co-operative non-credit societies, etc., and may be *statutory* and compulsory when designed by the Government. The Government of India has sanctioned money from time to time for village uplift work. We believe, to attain the object some statutory measures have to be adopted like the Village Panchayet Acts, Usurious Loans Act, etc. The village is still the social, economic, and political unit of India.

QUESTIONS.

1. Briefly describe the organization of rural self-government in Bengal. (Cal. 1927).
2. Describe briefly the constitution and functions of the District Boards in Bengal. (Cal. 1928).
3. How far do Union Boards help to solve the rural problems of Bengal. (Cal. 1928).
4. Indicate with explanatory notes the powers and duties of a District Board, of a Municipality, of a Local Board and of a Union Board. (Cal. 1931).
5. Describe the constitution and functions of District Boards of Bengal. (Cal. 1935).
6. Describe the system of rural self-government in Bengal or Assam. (Cal. 1941).
7. Discuss the functions of the District Officer in India. (Cal. 1941).

CHAPTER XXIV.

SYSTEM OF EDUCATION IN INDIA.

Provincial and Central Control.

The Reform Act of 1919 has made education a provincial subject. Excepting European education, the department is in charge of a minister who is responsible to the legislature.

The Government of India is directly responsible for education in areas lying outside the Governor's provinces. The new Universities of Benares Hindu and Aligarh Muslim, the Chiefs colleges, and the Central Research Institutes are under the direct supervision of the Central Government. The Education Department of the Government of India also directs the educational policy of British India as a whole.

It is to be greatly regretted that in the whole of India only 5 per cent. of the population respond to the test of literacy. In Bengal it is 9 per cent. (Read the Report of the Hartog Committee).

Ancient seats of learning.

India was famous for her great seats of learning. Taxila, Nalanda, Uddandapur, Bikramshila, Benares, Mithila, and Navadwip were some of the great seats of ancient Indian culture and learning where theology, literature, arts and the sciences were elaborately taught and students from the Far East and West used to flock to those centres to quench their thirst of knowledge. They could put into the shade even the most modern well-equipped universities.

The Vehicles of Popular Education.

Popular education did not rest so much on the mastery of the three R's, as on such popular vehicles of thought like *Kathakatha*, *Jatra*, *Kabi*, *Panchali*, etc. Both primary and secondary education were imparted by schools termed *Pathshalas* by the Hindus, and *Maktabs* and *Madrasas* by the Mahomedans. There used to be no village without its elementary school. Higher education was always free in the sense that boarding and lodging were also used to be

provided free by the Pundit or the preceptor, who in his turn was always supported by the endowments of the rich.

Four Stages in the History of Education.*

The educational history of India during British rule may be divided into the following four stages :—

FIRST STAGE.

Warren Hastings who was a great admirer of Oriental learning endowed the Calcutta Madrasa in 1781 with a view to encourage the study of Persian which was then the court language, and ten years later (1791) established the Sanskrit College at Benares. *Thus higher Sanskrit and Persian learning was encouraged to the detriment of mass education.* The Parliamentary Act of 1813 which renewed the Charter of the East India Company gave further encouragement to education by providing “a sum of not less than *one lac yearly to be spent for reviving literature and for encouraging learned people of India and for introducing and promoting the knowledge of the sciences.*”

SECOND STAGE—Missionary Activities.

In the early part of the nineteenth century Christian missionaries began to arrive in India. They opened many schools and colleges. *Carey, Marshman and Ward* obtained a Charter from the Dutch Government to establish a University at Serampore and opened the first missionary college in 1818. A dozen years later began the educational activities of *Alexander Duff*. India must acknowledge a deep debt of gratitude to the Christian missionaries for the spread of western and even oriental learning in India.

THE LEAD OF RAJA RAM MOHAN ROY.

Among the Indians also a thirst to partake of the learning and culture of the west was soon manifest. Raja Ram Mohan Ray, one of India's greatest social reformers, soon took the lead of those who rebelled against the time-old customs, prejudices and ceremonial ideas. Through his endeavour was established the Hindu College (the present-day Presidency College) in Calcutta.

ORIENTALISTS VS. OCCIDENTALISTS.

In the meantime a controversy began to agitate popular mind

Headings marked with asterisks may be omitted by less inquisitive students.

as to whether Oriental learning should give way to Western learning and culture. Macaulay who came to India in 1833 espoused the cause of western learning and though his characteristic rhetorics condemning Oriental learning were thoroughly unjust and ungenerous, yet we cannot but commend his famous Minute which advocated the introduction of western learning. His view carried the day. Schools and colleges of the western type began to multiply and in 1844 Lord Hardinge gave a great impetus to English education by *making English the language of public business in the courts.*

THIRD STAGE—A PERIOD OF STRENUOUS PROGRESS.

THE DESPATCH OF 1854: ADVOCATED MASS EDUCATION.

So long the Government followed the policy known as the "*filtration process*" i.e., the policy of allowing knowledge to filter down from the higher to the lower castes. The Despatch of 1854, however, advocated the bold policy of embarking on a scheme of mass education and '*combating the ignorance of the toiling millions which is the greatest curse of the country.*' Another despatch was sent to India in 1869.*

SIR CHARLES WOOD'S DESPATCH OF 1854 TO LORD DALHOUSIE.

It proposed among other things:—(a) The creation of an education department; (b) the institution of universities; (c) to arrange for the training schools of teachers; (d) the multiplication of schools and colleges; (e) adoption of the principle of grants-in-aid to private institutions and an extensive system of scholarships; (f) establishment of middle and elementary schools; (g) the rectification of Macaulay's mistake of neglecting vernacular languages; (h) and the encouragement of female education.

UNIVERSITIES ESTABLISHED: SCHOLARS MULTIPLIED.

Then followed a strenuous progress in the field of education. Between 1855 and 1882 institutions and scholars more than doubled (from 51 thousand institutions and 10 lacs of scholars to more than

* The Despatch of 1859 re-affirmed that of 1854 but regretted that the *grants-in-aid system did not prove successful* so far as diffusion of elementary vernacular education was concerned. It suggested the *imparting of vernacular instruction* through the instrumentality of the officers of government without *soliciting private contributions.*

a lac of institutions and to more than 26 lacs of scholars). In 1850 the Universities of Calcutta, Madras, and Bombay and in 1882 and 1887 the Universities of the Punjab and Allahabad were incorporated. Sir Henry Maine who used to eulogise the eagerness and keenness of the students in the highest terms, commenting on the increase in the number of matriculation students which increased from seven-half to nineteen thousands between 1882-1889, remarked that '*I do not think anything of the kind has been seen by any European University since the Middle Ages.*'

EDUCATION COMMISSION, 1882 : RELIANCE ON PRIVATE EFFORT.

The rapid expansion of education led to the appointment of the *Education Commission* of 1882. The Commission *recommended increased reliance on private effort for the propagation of higher education*. The ultimate effect was, however, disconcerting. On the one hand, universities which with their slender means were left to manage higher education necessarily developed an ill-paid, ill-equipped, and self-supporting system for their constituent schools and colleges, while on the other, the Departments of Public Instruction of the Government took upon itself the task of managing lavishly a few pampered government institutions.

FINAL STAGE.—PERIOD OF REFORM.

THE UNIVERSITIES ACT OF 1904 : TO SADLER COMMISSION.

Then came the period of reform. In 1901 Lord Curzon called an informal conference of educationists at Simla. In the same year the *Universities Commission* was appointed. A Director-General of Education was also appointed in that year. The Commission's recommendations raised a chorus of protest all over India but they were embodied in a bill which was passed as the *Indian Universities Act* of 1904. The Act tightened up the control of the government over the Universities and in its turn of the Universities over Schools and Colleges and provided for Post-Graduate teaching and the appointment of teachers by the Universities. In 1910 an Education Department was created and in the next year (1911) an Education Member was added to the Governor-General's Council while the post of Director-General of Education was abolished. In 1913 the

It also suggested the *levy of a special rate on the land* for the provision of elementary education.

Government issued a Resolution reviewing the conditions of education in India and on its future policy regarding it. In 1923 the Department of Education was merged into Department of Education, Health and Lands.

The rapid growth of the Calcutta University led to the appointment of the *Sadler Commission*. It made its epoch-making recommendations. When after the Reforms (1919), the Calcutta University was transferred to the Bengal Government, it shelved those recommendations on the ground of financial stringency though the Universities in the other provinces of India adopted many of its recommendations, especially on the organization side.

Four Grades of Educational Institutions.

There are four grades of educational institutions, Primary Schools, Secondary Schools, Colleges and Postgraduate teaching in the Universities.

I. Primary Schools.

The Primary schools are mainly financed and controlled by the local boards, municipalities and by the Department of Public Instruction.

In 1911 Mr. G. K. Gokhale's bill for the introduction of compulsory primary education in India was thrown out by the Imperial Council on the ground of financial stringency of the government. In recent years, eight provincial legislatures have passed Primary Education Acts authorising the introduction of compulsory education in areas, if "a local body (municipalities, local or district boards, etc.) of such an area at a special meeting convened for the purpose decides by a two-thirds majority in favour of the introduction of compulsion in *any part* of the area under its control, and then submits to government, for approval, a scheme to give effect to the decision provided the scheme must be within means of the said local body to carry out with reasonable financial assistance from government." The Acts provide for free education of children between the ages of six and ten, and allow exemptions in certain cases for non-compliance of the law. But in a very few areas the Acts have been actually put into operation mainly because of financial stringency.

On the 31st March 1938, there were more than two lacs of recognised primary schools in British India containing a crore of scholars and the total direct expenditure amounted

to a little over Rs. 8 crores. Of the school-going pupils (80 lacs in all), 76 per cent. are in the lower primary stage and thus *at least 50 per cent. of those at school never become literate* as a large proportion of the pupils in the lower primary stage leaves school prematurely only after a few months' attempt at learning the three R's.

HARTOG COMMITTEE ON PRIMARY EDUCATION.

It is a pity that education has not touched the fringe of the population. India's percentage of literacy is barely 7 per cent. The Hartog Committee which carried an enquiry as to the spread of education in India has reported that (a) throughout the educational system there is waste and ineffectiveness, (b) that children in the primary schools relapse into illiteracy very soon after they leave the schools, and (c) that education should be made a central subject so that the experiences of the different provinces may be co-ordinated.

In Bengal where literacy does not even reach 10 per cent., a *Free Primary Education Act* has been passed in 1930.* As the source of finance is mainly to be derived from the taxation of agricultural lands, the recent agrarian depression postponed the operation of the Act for a time.

The Bengal Primary Education Act of 1930.

The Act provides for free and compulsory primary education in Bengal. The main provisions include :—(a) *the creation for each district a District School Board to control primary education* ; (b) to raise funds by the imposition of an education cess on agricultural lands ; (c) to provide for compulsory attendance and free tuition. The estimated cost of the scheme is about 3.75 crores. Due to the agrarian depression the scheme could not be given effect to. Some districts,* however, undertook to operate the scheme on an *optional basis*. In such districts, the District Boards have handed over their responsibility for primary education to the District School Boards. Recently the Government proposes to put the Act in operation all over the Presidency.

* Nadia, Murshidabad, Dacca, Mymensingh, Noakhali, Chittagong, Birbhum, Bogra, Dinajpur and Pabna.

II. Secondary and High Schools.

Secondary education is imparted in the High and Middle English Schools. Government maintain a small number of high schools to serve as models to private institutions, and extend financial help to a very large number. In 1938, the number of schools were 3100 and the number of pupils rose to more than 8 lacs.

In Bengal there were in 1935 a little over 1,200 high schools for boys and about 100 high schools for girls. High and Middle Schools together provide for the education of 300,000 boys and 20,000 girls respectively. In Bengal, the Calcutta University still holds the Matriculation examination and has introduced Bengali (vernacular) as the medium of instruction and examination. In Madras, U.P., C.P., Delhi, the Punjab and Bombay, the control of school education has been transferred to *Boards of Secondary Education*.

The Despatch of 1882 recommended the development of that side of education which makes one fit to earn his own living. But no serious attempts have been made on that behalf. Recently, *School Final or School Leaving Examination Courses* have been introduced and subjects are included which aim at giving an education which may fit one *to earn his living*.

III. Colleges : for Boys and Girls.

There are more than 300 colleges in India. In Bengal, there were 52 Arts colleges for boys and 5 for girls in 1934-35. Since then several girls' schools have been raised to the Intermediate standard and separate classes for girls during the same period or at different periods of the day have been opened in a number of boy's colleges. Co-education in colleges is also rapidly progressing. Recently the tendency seems to have got a set-back in Bengal.

Following the recommendations of the Calcutta University Commission, in Lucknow, Dacca, Aligarh Muslim and Allahabad Universities, the separation of the Intermediate classes from the sphere of University work, *i.e.*, the separation of the two top classes of high schools from the rest of the college classes has been effected. The separated classes have been combined together and the control

over them has been transferred from the University to a Board of Secondary and Intermediate Education.

The recommendations of the Calcutta University Commission, so far as the First grade Colleges are concerned, have not been adopted as they entail huge expenditure.

IV. The Universities : Post-Graduate Teaching and Research.

With the history of post-graduate teaching in the universities the name of Sir Ashutosh Mookerji would ever remain indissolubly connected. It was his genius and earnest single-handed labour which made such a thing possible in the Indian Universities. The government have endowed a large number of chairs in the different Universities and in some cases have granted decent recurring grants. Both teaching and research work have attained a high standard of efficiency and can compare well with the Universities of the West.

There are to-day *eighteen* Universities, the Universities of *Calcutta* and *Dacca* in Bengal, *Patna* in Bihar and Orissa, *Benares Hindu*, *Aligarh Muslim*, *Lucknow*, *Agra* and *Allahabad* Universities in the United Provinces, *Delhi* and the *Punjab* Universities in the *Punjab*, *Rangoon* in Burma, *Bombay* and *Madras* in their respective presidencies, *Nagpur* in Central Provinces, *Andhra* in the Telegu districts and *Annamalai* in the Tamil districts of the Madras Presidency, *Osmania* in Hyderabad, and *Mysore* in the Mysore State. The last two are situated in the Indian States, while the rest are in British India.

Constitution of Calcutta and other older Universities.

In the older Universities, for example, the Calcutta University, the head of the provincial government is the Chancellor. He nominates a Vice-Chancellor who presides over the syndicate, which is the executive body. It is composed of members elected by the various Faculties and a few *ex-officio government nominee*. The legislative body is the Senate, composed of members 80 per cent. of whom are nominated by the Chancellor and the rest by the Faculties and the graduates. It appoints a Registrar to keep the minutes of the proceedings of the Senate and the Syndicate meetings and to transact

all University business. The Senate can frame and enforce regulations subject to the sanction of the government.

Dacca and other Universities.

In the new Universities a proper line of demarcation has been drawn between administrative matters and academic matters, the former having been left to a representative body called the Court while academic matters have been entrusted to the Senate which is largely composed of the teachers of the University.

The Report of the Calcutta University Commission.

The Government of India drew special attention to the following points in the Report :—

(1) High Schools fail to give that breadth of training which the developments of the country and new avenues of employment demand.

(2) The intermediate section of University education should be recognised as part of school education and should be separated from the University organization.

(3) The defects of the present system of affiliated colleges may be mitigated by the establishment of a strong central teaching body, by the creation of unitary universities (as occasion arises), a modification of the administrative machinery which will admit fuller representation to local interests, and supervision of different classes of institutions by several appropriately constituted bodies.

Other Universities, before Calcutta, took notice of these and other recommendations, and many of them have modified their constitutions on the lines recommended by the Commission.

The Bombay University Act.

It was passed in 1928. The Senate now possesses a predominantly elective character rather than being stuffed by an overwhelmingly large nominated majority. Principals of colleges, University professors, college professors, headmasters of schools, public institutions and registered graduates, Faculties and the provincial legislature send their representatives. The total elected members number ninety-three and the Chancellor nominates forty members. The executive government is vested in the Syndicate which is elected for three years. The Senate is elected for five years. Purely academic matters are dealt with by a new body known as the Academic Council.

European Education.

It is a reserved subject. It is pointed out that the cost

of education of Anglo-Indian boys and girls per head is several times that of Indian boys. It is suggested that Anglo-Indian boys should take more to University education than hitherto. That would help the spread of education as well as a lowering of the cost per head.

Vocational and technical Education.

In 1938 there were 45 *Medical Colleges and Schools* with 10,500 pupils, 16 *Law Colleges and Schools* with 7,500 students and 24 *Agricultural Colleges and Schools* with 1,500 pupils. There is a Research Institute of Agriculture at Pusa. There are 21 *Training Colleges for Teachers*. There are 144 *Commercial Colleges and Schools* with 9,000 pupils, the most important of which is the Sydenham College of Commerce in Bombay.

Industrial Institutions, there are many in India, the most important of which are the *Victoria Jubilee Technical Institute* in Bombay and the *Indian Institute of Science at Bangalore*. In addition to a number of engineering schools there are *Engineering Colleges* at Roorkee, Sibpur, Poona, Madras, Rangoon, Patna and Benares. There are *Schools of Art* in the larger towns. There are two *Forest Colleges* at Dehra Dun and Coimbatore with 100 schools in all. A *Technical Institute* is in existence at Cawnpur and a *Mining School at Dhanbad*. There are three colleges for *Veterinary Training*.

The pity of the situation is that existing institutions are too few to meet the increasing rush of scholars. Further, the schools and colleges can not but impart mainly a theoretical form of education which require supplementing in workshops and factories. But as most of such workshops and factories belong to foreigners they furnish little opportunity for the industrial training of Indian youths. Government workshops were equally guilty till very lately for their indifference to the well-being of Indian youths. Again, in many industrial schools the training that is given is useless as the teachers themselves are not properly trained, nor the training is given with reference to particular industries that flourish in the neighbourhood.

Female Education.

The country has to-day shaken off its conservativeness and believes that unless the women folk are awakened of their slumber, progress is unattainable. There cannot be good sons unless there are educated mothers.

We have already noticed that the problem of supply of schools for girls is extensively being met by opening new schools, by opening girls' classes in the morning in boys schools, by opening boarding schools, etc. College education is also similarly being arranged. Further, co-education obtains in the colleges in cities and to some extent in the mufussil. But already public opinion is growing strong against co-education except in the post-graduate classes.

In educating our girls we have, however, forgotten like our pioneers in the West that female education should be so modelled that the girls may not forget and fail in their mission in life,—to be good mothers, sisters and daughters and above all good house-wives. So reforms in the curriculum on that line seem to be an urgent necessity.

Physical Education.

The Report of the Calcutta University Students Welfare Committee discloses a very lamentable state of affairs. Mal-nutrition is the cause of ill-health in the majority of cases. Physical education, however, cannot remove it. The Committees are doing commendable work. Our legislators in 1929 recommended to the Governor-General in Council that "steps should be taken as early as possible to provide Indian youths with compulsory training in games and drill and to provide and encourage the use of miniature rifle ranges in schools and colleges for boys between the ages of twelve and twenty." But no effect has hitherto been given to this resolution of the Assembly. The Terrorist activities in Bengal have stood in the way of the spread of clubs and associations for physical training.

The Wardah Scheme.

To improve the standard of education in the country and to reform its *nature* and *methods*, a scheme of education has been adumbrated and sponsored under the leadership of Mahatma Gandhi, which is better known today as the Wardah Scheme. The object

is not only to improve the standard and to make it practical and useful but to impart along with it some form of industrial education so that the pupils may themselves earn and defray a portion of the expenses of their education. A keen controversy is still going on as to the practicability of the scheme.

All-India Statistics about Education.

In 1933-34 the total expenditure on education amounted to Rs. 27 crores, of which 48.3 per cent. came from government funds, 15.5 per cent. from District Boards and Municipal Funds, 22.0 from fees and 14.2 per cent. from all other sources.

The literate male population of British India in the last Census Report was only 72 per thousand (*i.e.*, 7.2 per cent.) and females numbered 18 (*i.e.*, 1.8 per cent.) per thousand.

Statistics of the year 1929-30 shows that in Bengal with an area of about 77 thousand sq. miles and with a population of 141 lacs of males and 225 lacs of females, the number of Arts Colleges were 44 for males and 5 for females, and more than 42,000 primary schools for males and 16,000 for females. The percentage of the male scholars to the male population of the province was 9.1 per cent. and the female scholars 2.26 per cent. only. The total expenditure was about Rs. 4½ crores.

In the Bombay Presidency in the year 1933-34 with an area of about 1½ lacs of sq. miles and with a male population of a little over a crore and a female population with a little less than a crore the number of Arts Colleges for males were only 14 and for females exclusively there were none, the number of high schools for males numbered 201 and for females only 60, and the number of primary schools for males were 30,000 and for females only 17,000. The percentage of male scholars to male population in the schools was found to be 2.77 per cent. The total expenditure amounted to a little over Rs. 4 crores.

QUESTIONS.

1. What do you understand by vocational education? Show the importance of vocational education in the national life of India (Cal. 1920.)
2. What steps would you suggest for the spread of primary education in Bengal? (Cal. 1931.)

CHAPTER XXVI.

POLICE AND JAILS.

Pre-British Police System.

The charge of the police was left with the village community. The headman or the *patel* was assisted by the *Chowkidar*—the village watchman, who reported crimes. In short, he generally helped the headman in maintaining peace. In the large towns, the *Chowkidar* was represented by the officer known as *Kotwal* who maintained a large number of constables. But the whole system seemed to break down with the decay of the central authority.

Village Police in India.

Mr. Anderson thus sums up the arrangement :—"In Madras the village headman is responsible for the maintainance of law and order; and in the larger villages of the Bombay Presidency there are, besides the Patels, the Police Patels who have petty criminal powers; in certain other parts of India, as Sind, the Zemindars assist Government in the preservation of law and order. The *Chowkidar* also remains, and his duty is to report crime; but his functions are various and extend to the arrest of offenders, the general aid of the police, the maintenance of watch and ward over bad characters and suspicious persons, and the general supply of local information. He receives rent-free lands or small sums of money from Government."

Present Police Organization.

The function of the police is to maintain order and to prevent and detect crimes, and to bring the offenders against public peace to justice.

The provincial government is in charge of the entire police force of each province. *So the term Indian police is a misnomer. It has become a transferred department.* The head of the department in a province is the Inspector-General of Police who is always a member of the civil service. The province is next divided into "ranges" which are left in charge of Deputy Inspector-General of Police. In each district there

is a District Superintendent of Police, who is however, subordinate to the District Magistrate and renders aid to him in maintaining order and peace. He is assisted by Assistant and Deputy Superintendents who are placed in charge of sub-divisions of districts and are generally recruited locally and so are not members of the Indian Civil Service. The higher officers of the Imperial Police Service are recruited by competitive examinations held in England.

Each district is divided into circles which are placed under inspectors. Each circle or section again is split up into *thanas* which are left in charge of sub-inspectors. In the remoter parts of *thanas* which on the average cover an area of 200 sq. miles, there are outposts in charge of head constables. In the head quarters of each district police forces have always been kept in reserve to meet emergencies. About half the police forces are armed with fire arms while a small proportion is mounted.

In the Presidency towns and in Rangoon the head of the police is known as Police Commissioner. He is also assisted in the same way as the provincial heads. There is also a railway police under a railway officer for the protection of railway property.

At the Nasik Police Training School, all recruits whether appointed locally or in England are given a training in law, languages and in drill.

"There is also the Criminal Investigation Department (C. I. D.)—originally the Thagi and Dakati Department—whose duties are to collect information and, if possible, to bring to justice gangs of men who commit offences in various parts of the country and thus baffle the efforts of the local police."

Police Reforms.

The Police Commission of 1861 recommended a policy of police organization which was adopted by the government and is substantially in existence to-day. Another Commission was appointed in 1902

which condemned corruption and inefficiency of the police, and recommended the development of existing village agencies for police work and suggested about the recruitment of officers which was calculated to raise the force in the estimates of the public. The government gave full effect to the recommendations. One effect of it was to raise the cost of maintaining the police force. But so long as the force is apprehended to be utilised in checking the outbursts of popular feeling and political aspirations of the people, they are not expected to be popular with the public.

Prisons and their Reform.

Punishment of criminals is meant as a corrective in as much as it is to be deterrent, so it is nothing but inhuman to make the jails a hell. Formerly, there was an indiscriminate herding of juveniles with hardened criminals in the jails and the prisons were so much the breeding places of diseases that very few prisoners came out of them alive. Similar things obtained in England as well. Through the philanthropic services of John Howard, English prisons have been improved. India to-day can also feel proud on that score. Since 1836 Committees have sat and have recommended for the improvement of jails but to no purpose until in 1894 when the Prison Act was passed which at present regulates the jail administration in India. The Prison Act of 1894 laid great stress on the advisability of introducing uniformity in jail administration in the different provinces of India. The 1919 Committee recommended the provision of education for prisoners, the development of prison industries to meet the needs of the consuming departments of the government, the recruitment of a better class of warders, the extension and improvement of accommodation in the prison and the gradual abandonment of the penal settlement in the Andamans. The Indian jails have improved considerably and may serve as a model to many countries. In enforcing discipline, in providing for shorter hours of work (nine hours), in imparting industrial training and making the prisoners earn their own bread by emphasizing the habits of industry and in keeping watch later on after the moral life of the prisoners, the Indian jail authorities yield to none.

There are a number of Reformatory Schools for boy offenders, notably one at Yervada, near Poona. The pupils are not only taught the three R's but are trained in the industrial arts. The authorities keep themselves in touch with the pupils long after they leave the

schools. The *Borstal System* of juvenile prison has been productive of great good.

Prison Management.

The prison was so long a reserved subject. The head of the jail administration in each province is the Inspector-General of Prisons and usually he is a member of the Indian Medical Service. There is a *Presidency Jail* in each of the three Presidencies. Next comes the *Central Jails* which are usually located at the divisional headquarters. Below the Superintendents of the Central Jails, there are also members of the service. Every jail has four officers, a Superintendent, a Medical Officer, an Assistant Medical Officer and a Jailor. There are *District Jails* and *Sub-Divisional Jails*. Prisons are also regularly visited and inspected by official and non-official visitors. Female prisoners are kept separated as much as possible from males, the sick from the healthy, the young from the old, and the civil prisoners from the criminal. By good conduct, a prisoner can earn remission of sentence. The Committee of 1919 recommended progressive abolition of the penal settlement in the Andamans except in the case of specially dangerous prisoners. The settlement was accordingly abolished only to be revived again in the teeth of violent public opposition in 1933 for prisoners guilty of terrorist crimes.

CHAPTER XXVII.

SOME MUNICIPAL AND RURAL PROBLEMS.

Of the many municipal and rural problems that confront us to-day and require urgent attention of both the public and the government are mainly—Medical Relief, Public Health, Sanitation and Drainage, Water Supply, and Milk Supply through Co-operative efforts.

I. Medical Relief.

EARLY HISTORY.

Medical Science in all its branches was not neglected in ancient India. Medical research on a large scale used to be carried on in Taxila, Nalanda, Bikramsila, Uddandapur and other places and many treatises on medicine and surgery are still extant which have not yet been surpassed in some respects by the modern medical science. Later on, the indigenous *Ayurvedic* medical system was strengthened by the *Unani* or the *Hakimi* system by the Mahomedan conquerors. It is unfortunate, however, that with the fall of Hindu kingdoms the development of their medical science received a complete set back. Lastly, came the European system with its superiority in the field of surgery. The new system which received thorough government support from the very beginning, specially during the early period of the spread of English education and the diffusion of western thought and ideas, has completely eclipsed the indigenous medical system. But there is a renaissance and the Indian system is receiving the appreciation both at home and abroad which it rightly deserves.

MEDICAL RELIEF.

Hospitals and Charitable dispensaries have been opened in urban and rural areas and patients are admitted either as outdoor or indoor. Except in serious cases, for social and caste reasons, the uninitiated masses are very unwilling to take advantage of the Indian hospitals. Moreover, the paucity in its number, the red-tape policy followed in their administration, the high death-rate in them and the adoption of the principle of deliberate hostility towards customs and usages, have not been able to completely popularize these benevolent institutions with the Indian people.

HOSPITALS AND DISPENSARIES : CLASSES OF—

(a) Established by the State for people in general or (b) for special classes of people, *e.g.*, Europeans ; (c) maintained by Local Funds, *e.g.*, by District Boards, Municipalities, etc., (d) and railway institutions.

Alike in education, though not to the same extent, *missionary activities* and pioneering in the field of medical relief have been of no mean importance.

As the women folk do not like, particularly in India, to be treated by male doctors provision has been made to open *hospitals for the exclusive use of women* like the Dufferin Hospital, and facilities have been given for the training of lady doctors. In 1885 the Countess of Dufferin initiated a movement for the provision of medical aid to Indian women and the Lady Dufferin Fund which originated as a result provides to-day the provincial branches of the organization with funds to carry on the task. Lady Curzon, Lady Minto and others initiated similar funds for the training of midwives and nurses. For the training and supply of lady doctors the Lady Hardinge Medical College has been started at Delhi.

There are *Lunatic Asylums* in India managed by the government. The annual admission do not much exceed two thousands and a half and the total inmates number a little over ten thousands. A couple of such asylums have been recently opened in Bengal with the help of private enterprise. The government also maintain *leper asylums*.

Organization of the Medical Services.

At the top there is the Indian Medical Service (I. M. S.) recruited by competitive examination in England. The service originated in an attempt to secure doctors for the troops of the E. I. Coy., and though these officers hold commissions in the army, except in times of war, they are engaged in civil duties. (The Royal Army Medical Corps look after the Army). Under them come the Assistant Surgeons, both civil and military. They are the alumnies of the medical colleges in India. In the lowest grade come the Sub-Assistant Surgeons, who get their training in the medical schools and are put in charge of minor dispensaries.

At the head of the Indian Medical Service is the Director-General. He supervises the medical work throughout India and is responsible

to the India Government. Since 1904 a Sanitary Commissioner, now known as the Public Health Commissioner, has been added. The Army Medical Organization is quite separate.

Each province has got its own medical administration. In major provinces, the head is known as the Surgeon-General. In other provinces, he is known as the Inspector-General of Civil Hospitals. In addition, there is a Director of Public Health.

In each district there is a Civil Surgeon who is in charge of Medical and sanitary arrangements and looks after the hospitals at the district head-quarters and the other minor hospitals and dispensaries.

II. Public Health.

The condition of public health in India is appalling. When we compare our birth and death statistics with other countries, the rate of our infant and adult mortalities, the toll from the many preventible diseases, etc., it casts a shadow of complete despondence over us. After a benevolent rule extending over more than a century and a half, the plea of ignorance and bad customary habits as contributing to the above results do not absolve the government from its due share of responsibility.

Birth-rate and death-rate : a Comparison.

If we compare the Indian death-rate per mille with other countries, her position becomes the most unenviable. The fall in the death-rate in all countries is also an important fact to be reckoned with. We append below a comparative table.

Year	England	London	France	Germany	India	Bengal	Calcutta
1910	15.1	14.8	17.5	18.4	35.2	32.4	28.2
1925	11.7	8.4	11.5	13.2	30.2	24.9	32.5

In India the death-rate is 30.2, while in Japan another country of the Orient, the death-rate is 14.5 and in America and New Zealand it is still lower and does not exceed 9.5.

Expectation of life.

The next important question is, what is the expectation

of one's life (longevity) after birth in India? The following comparative table would make the position clear.

Year	England	India	America	Australia
1891	34.6	24.5	..	..
1921	..	16	..	..
1924	56	23.7	52	60

Economic loss due to premature death.

The assessed *economic value of each child at birth* is Rs. 2500 in U. S. A., Rs. 800 in Germany, Rs. 450 in Japan and is only Rs. 130 in unhappy India. But even at that low value the total loss due to child mortality is Rs. 200 crores a year.

How to lower mortality :

Let us see what the British Government at home have done to combat the higher death-rate among her population. The following table will speak for itself.

Mortality in England (per mille).

	Infant mortality	General death-rate	Expenditure on Public Health
1872	212	28	2s.
1926	74	11.5	17½s.

In India the rate of baby deaths is 175 per thousand, though in larger towns, *e.g.*, in Bombay, the rate exceeds 320 per mille in the first year of their lives.

We cannot expect any appreciable improvement in India as the *per capita* expenditure on Public Health does not exceed a few annas.

	Daily income.		Taxation.	Rate of	Literacy.
U. S. A.	Rs. 7	As. 8	Rs. 81	11 times	89.2 p.c.
Great Britain	„ 4	„ 9	„ 235	57 „	93 „
France	„ 3	„ 9	„ 235	65 „	..
Japan	„ 3	„ 2	..	..	97 „
Germany	„ 2	„ 13	„ 75	26 „	95 „
India	„ 0	„ 1½	„ 6	68 „	7 „

The slender income of one and a half annas per day, the obligation of paying by each citizen as much as 68 day's income as *taxes* to the government and a degree of illiteracy which passes comprehension, specially in the second quarter of the 20th century, are facts which can neither be ignored nor can lightly be explained away.

Heavy deaths from preventible diseases.

It is argued that much of the waste of human life in India is preventible, *e.g.*, malaria, kala-azar, plague, cholera, small-pox, etc., are diseases which can be avoided by taking proper precautions. Of the 77 lacs of annual victims in British India, fever claims 59 lacs, cholera 3, small-pox 1, dysentery and diarrhoea 3, respiratory diseases 4, and all other causes 15 lacs. It has been officially admitted that when it was even clearly demonstrated that a certain precautionary method is proof against a particular disease, the general mass of the population seldom failed to follow it. Conservatism, want of book-learning and superstitions of the people never stood in the way of the officers of the Public Health Department to combat an epidemic. It was rather shortness of funds, inadequacy and inefficiency of the staff, defects of organisation, inadequate supply of medicine, dishonesty of the distributors, dilatory procedure and the red tape which always spelt disaster. Abject poverty demoralizes a man and in that fact there lies an explanation to the query as to why people show unconcern and a spirit of resignation in their observances of sanitary principles.

Deaths from preventible diseases in Bengal.

Before we finish this section on Public Health, a statistical study of the death-rate from preventible diseases in Bengal would be instructive.

Mortality in Bengal.

		Every day.	Every hour.	Every minute.
Pneumonia	..	480	20	1 every three
Malaria	..	960	40	1 „ $\frac{1}{2}$
Cholera	..	360	15	1 „ four
Typhoid	..	216	9	1 „ seven
Diarrhœa	..	120	5	1 „ twelve
Tetanus (babies)	..	..	..	1 „ fifteen
Tuberculosis	..	300	12.5	1 „ five

The toll of Malaria in Bengal is $7\frac{1}{2}$ lacs and due to this malady there are 37 cases of abortions for every hundred cases of delivery. Deaths among mothers from delivery and its after effects number 200 daily in the Presidency.

The foregoing statistics reveal an awful tale—the heart-rending story of a dying race. Extensive social service, propaganda from the press, platform and the pulpit, individual and collective endeavours on a gigantic scale and political and economic uplift, can only offer a solution for the perilous condition in which we are in.

Government attitude.

The Public Health Commissioner with the Government of India stated before the Medical Officers of Health from the Far Eastern Countries that “the State effort in British India in regard to Health Organisation is of no mean importance and for which no government need be ashamed.” The Government of India in its resolution of 1914 remarked that “*in the land of the ox cart one must not expect the peace of the motor car.*”

But facts and events do not justify such a callous remark. This attitude of the government has turned the serious attention of a considerable section of the Indian community to think seriously on problems concerning public health and there is to-day a continuous and steady growth of anti-malaria and other societies on co-operative basis throughout the length and breadth of the country. May God

bless such associations and their pioneers who are working heart and soul to bring relief and succour to the despairing millions. The Public Health Commissioner recognises the fact that "it is very difficult with *economic* and other conditions being what they are, to visualise any very rapid or drastic amelioration."

III. Sanitation.

Organisation of sanitation.

The problem of sanitation engaged the attention of the Government early. In each province there is a Sanitary Commissioner or a Director of Public Health. In Bombay there are in addition a number of Deputy Sanitary Commissioners. As early as 1885 a Sanitary Board has been created in each province with powers to control the sanitary work of municipalities and district boards. Since 1904 the Government of India is taking active interest by devising and supporting measures of local governments for the appointment of sanitary and health officers in towns and urban areas.

In urban areas : drainage, water supply and housing.

In urban areas the problems of *drainage and water supply* have been carefully tackled. But the results obtained is far from satisfactory. The shortage of water supply in the big cities, particularly during the summer, is notorious. Of course, much of this shortage is due to wastage. So civic consciousness is to be developed to combat the evil. Again, the problem of city drainage has become doubly serious, first because of the flooding of streets after each downpour, and secondly because of the pollution of drinking water through leakages. Cholera and typhoid are raging in Calcutta in all seasons due to such pollution. Through the Improvement Trusts* the congestions in bigger towns

*IMPROVEMENT TRUSTS.

The housing problem is very important to-day in the big cities and towns. It is not only inadequate but insanitary as well. The poor are the worst sufferers. In the industrial towns men and women are herded together like lower animals. Municipal housing has been attempted but the finances can scarcely cope with the task. The housing problem is important both from social, moral, physical and sanitary points of view. The high death-rate from preventable diseases

have been relieved and the scheme for accommodation and *housing labour* and the poorer classes have made great progress and a valuable survey work on this head has also been successfully undertaken. But the housing problem in the cities will remain an unsolved problem for a long time to come.

The *Bustees* which are the depositories of all contagious diseases like cholera, small-pox, plague, typhoid, etc., still exist in their pristine glory. So long as overcrowding will prevail and poverty would exist bustees would not go. Town-planning, Improvement Trusts, cheap or free workmen's houses may help to solve the problem only partially. Compulsory demolition of bustees, spread of knowledge through education and propaganda may control the evil to a great extent. Extension of suburban railways and growth of colonies for workingmen and poor middle class people should be encouraged (Read, Calcutta Improvement Trust).

in our towns may to a great extent be attributed to the housing difficulties. To combat the evils Improvement Trusts have been formed in all important towns of India.

THE CALCUTTA IMPROVEMENT TRUST.

The Calcutta Improvement Trust was created in 1912 by an Act of the legislature to improve and extend Calcutta, to widen its streets, open play-grounds and parks, etc., to clear congested areas and also to provide cheap accommodation for the poor. It has already made considerable improvement of the city by opening new roads, parks, bridges, etc., and has extended Calcutta both northwards and southwards, particularly towards the south. The Dhakuria Lake and the Lake areas in Ballygunj may be noted among its chief achievements.

PORT TRUST OR PORT COMMISSIONERS.

In the important parts of India, *e.g.*, Calcutta, Bombay, Madras, Karachi, Rangoon, Chittagong, *etc.*, there are Ports Trusts. Its business is to provide facilities for the incoming and outgoing ships to and from the port, to warehouse goods, to provide facilities for shipping in general (*e.g.*, by dredging the rivers, providing docks and facilities for transport, *etc.*), to provide bridges, pontoons, *etc.*, to facilitate the collection of customs revenue, *etc.* The Port Trusts are mainly being composed of Europeans representing the local Government, the Chambers of Commerce, railways and local corporations or municipalities.

In Calcutta, Ward Health Committees have been created which distribute medical help and medicines free of charge to the poor and the indigent and during epidemics carry on propaganda through magic lantern and public lectures, etc., and devise as well as advise on preventive measures.

In rural areas.

In rural areas government help was found necessarily inadequate and public efforts were directed to the growth of Village Reconstruction Societies, Co-operative organization for anti-malarial work, etc. For solving rural water supply problem strenuous attempts of the District Boards have been found to be inadequate. The opening of a number of medical schools in the mofussil districts of Bengal and the scheme of providing each *thana* with qualified doctors seem to be moves in the right direction.

IV. Drainage and Water Supply.

The two most absolute necessities for improving the sanitation of a locality are the betterment of its *drainage* and *water supply*.

Drainage.

Obstruction of drainage due to railway embankments has been attributed by the late Raja Digambar Mitter as the root cause of Malaria. Railway embankments by forming water-logged areas have curtailed the cultivable area, have bred malaria and led to devastating floods, and according to a competent authority have retarded irrigation and fertilization by making the overflow process impossible.

Water-supply.

Chief cities and towns and some district and subdivisional towns have got water-works for the supply of filtered drinking water. The system of the supply of unfiltered water for other than drinking purposes in Calcutta has been condemned by competent authorities on the score that it serves as a vehicle for the spread of contagious diseases, like cholera, typhoid, small-pox, etc. Recently, however, deep

tube-well water has come into favour in large cities and towns in preference to ill-filtered tap water drawn from stagnant reservoirs and supplied through leaky contaminated pipes.

Village Water-supply.

But in the land of villages, the problem of rural water-supply is a very hard nut to crack. Old tanks are in decay and many have silted up, while very few are being excavated or repaired. Landlords have become absentees, some for malaria and many to satisfy their craze for town life. No religious sanction is felt to-day for dedicating a tank.

The two dangerous periods of the years are the *autumn* months when jute-washing begins, and the *summer months*, when tanks and pools become muddy and dried up. The one breeds malaria and typhoid, the other spreads cholera.

Multiplication and re-excavation of tanks can solve the problem but the tendency is otherwise. In many a case because of multi-proprietorship, tanks remain unreclaimed. In such cases the law should be so amended that on the application of a single co-sharer the property may be auctioned and sold to the highest cosharer-bidder on condition of his reclaiming it. The railway ditches which are the great plague spots, may also be fruitfully utilized if they are leased out for long terms for pisciculture. The system of allowing drains, sewage and lavatory water to flow into tanks should not be countenanced and deterrent punishments should be inflicted by making such practices thoroughly illegal.

The feeble endeavours and short purse of the District Boards would never be able to solve the problem of water supply. So the scheme of a loan of one crore of rupees by the Government of Bengal for water supply purposes each district being given the option of having its own system of water supply through tanks or tube wells, or both, and the district boards having substantial voice in the disbursement

of the grants while undertaking to pay interest and sinking fund charges out of its funds which are now-a-days reserved and ear-marked for rural water supply, seems to be a very commendable proposition.

V. Food Supply and Co-operative Efforts.

(a) Food Supply.

Not only the food should be good in quality and sufficient in quantity but it also should be properly cooked. Different types of food should be prescribed for different persons according to their different avocations of life.

Milk, ghee, butter, oils (mustard and coconut), flour and sugar or molasses (gur) comprise the most nutritious portion of our daily food. But they are being scandalously adulterated and are found bacteriologically impure. Bad milk carry the infections of such fell diseases like cholera, typhoid, dysentery, diarrhoea, and tuberculosis. The only remedy lies in forming co-operative distribution, production and consumption societies as was once done by 28 wage-earners at Rochdale (Read Penson, pp. 99, Vol. II). Buy a cheap oil-engine by co-operative effort and grind your own flour, or press your own oil-seeds or sugarcane.

Tinned food for children as substitutes for milk which contains no vitamin and inevitably undermines health and affects liver, has found great favour in recent times. Pure ghee has been substituted by vegetable products.

(b) Milk Supply.

The Calcutta Milk Union Limited records a move in the right direction. The village gowalas used to take advantage of the helpless population of Calcutta by supplying bad milk on their own terms which was mainly responsible for so high a child mortality in the city. To break the monopoly of the gowalas and to supply cheaper and wholesome milk the Union was formed. The Corporation of

Calcutta has granted to the Union a non-recurring subsidy of Rs. 50,000 and a loan of Rs. 50,000 free of interest, repayable in six years, on condition that the Union should increase its yields to 500 mds. a day within three years. With this assistance the Union was able to erect a dairy with up-to-date plant for the purpose of pasteurising and treating milk. There are six collecting depots in which milk is collected from the respective neighbourhood and then railed to Calcutta. The membership of the Union has increased from 63 to 71 Societies and is composed of *gowalas* or milkmen living in the neighbourhood of Calcutta. The existing capital has increased from Rs. 75,000 to Rs. 1,17,961.

Other Food Articles.

Strenuous attempts should be made to destroy the monopoly conditions of supply of fish and ghee. It is said that the whole fish trade of Calcutta is in the hands of a dozen fishermen who make a profit of 500 per cent.

ELEMENTS OF ECONOMICS.

CHAPTER I.

INTRODUCTORY.

I. The subject-matter of Economics.

The subject of Political Economy or Economics has become very popular. Even a man in the street seems to take great interest in the subject.

HUMAN WANTS REQUIRE SATISFACTION BY EFFORTS.

Man is a bundle of wants and the *satisfaction* of those wants can only be achieved as the result of *effort*. These efforts are economic activities which become necessary in order to satisfy human wants. Had the gifts of nature been abundant, unlimited, various and inexhaustible, *human effort* or *economic activities* would have been mostly unnecessary.

THE SUBJECT-MATTER OF ECONOMICS,* says Penson, is *the study of the causes, the nature and the results of economic efforts made by man in supplying the needs of himself and his family. Wants, efforts and satisfaction complete the whole round of the economic life of man.*

II. Definition of Economics.

Economics defined.

ECONOMICS DEALS PRIMARILY WITH MAN AND SECONDARILY WITH WEALTH.

*"The subject-matter of Economics is the activities of men in society, that are called forth by the scarcity of the means of satisfying their wants."—P. C. Ghosh.

Prof. Marshall has thus defined Economics:—"Political Economy or Economics, is a study of man's action in the ordinary business of life ; it enquires how he gets his income and how he uses it. Thus it is on the one side a study of wealth and on the other, and more important side a part of the study of man."*

PENSON states that "it is true that we confine ourselves to that part of man's activity which has to do with wealth, but none the less the subject is man. Wealth plays a very prominent part, but it is throughout subordinate to man and his activities. In short, economics deals primarily with man as wanting, working, getting, spending, and secondarily with the wealth which can satisfy his wants. What we are really studying in Economics is not wealth but man."

Roscher, the founder of the Historical School of Economics, states that "the starting point and goal of our science is man."†

Why the name 'Political' Economy?

MEANING OF 'ECONOMY' AND 'POLITICAL'. The word 'Economy' is derived from two Greek words which mean 'the art of managing

* EMPHASIS IS LAID ON THE HUMAN ELEMENT.

F. H. ROBINSON.—Economics is the study of Man's actions in the pursuit of wealth.

SELIGMAN lays "the fullest emphasis on the human element."

CHAPMAN.—"Economics treats of all the actions of human beings in relation to wealth."

† Recognition of the human element.

FIRST STAGE. The earliest writers regarded Economics merely as a science of wealth—a science which dealt merely with the production, distribution, exchange and consumption of wealth. This narrow idea of the science led men like Carlyle and Ruskin to designate the science as the Gospel of Mammon.

SECOND STAGE. Economics was later regarded as the science of wealth in relation to man.—John Stuart Mill and others.

FINAL STAGE. Modern Economists define it as a science of man in relation to wealth. Man is primary and wealth is secondary.

a house-hold.' The word 'political' was added when the science came to be regarded '*as the art of managing the affairs of a nation.*'

The subject to-day does not, however, concern itself with the management of a state but *concerns itself with the welfare of the individual as a member of society*, and should be called Social Economics, or more briefly, Economics. We may now safely eschew the term 'political'.

The end of Economic Science.

To 'economise' means adjusting the opportunities or environment of human beings in such a way as to produce the best results (i.e., to obtain a maximum return with a minimum of outlay).

The end of our economic studies is to improve the existing opportunities and to minimise the drawbacks.

Is Economics a Gospel of Mammon?

IS IT A SELFISH SCIENCE? The clumsy representation of the subject-matter of the science by earlier writers has led men like Carlyle, Ruskin, Burke and others to declare Economics to be 'a selfish science, the sole object being the aggrandizement of the poor and the helpless by the rich and the strong.'

The ground for misunderstanding has arisen out of the fact that economics was early defined as merely the science of wealth. Modern Economists have, however, *put greater emphasis on man rather than on wealth* and have disarmed the critics thoroughly.*

ECONOMICS DOES NOT INCULCATE THE LOVE OF WEALTH:—Walker thus defends the science: "*While wealth is not the sole interest of mankind it is yet of vital concern and should be studied best by itself by isolating it from other sciences. Political Economy does not inculcate the love of wealth but simply inquires how that passion influences the actions of men.*"

* Compare the views of Prof. Marshall, Penson, Roscher and others in page 2.

THE STUDY OF WEALTH IS NEVER TO BE NEGLECTED:—
Prof. Marshall opines that the study of wealth is important as the destruction of the poor and the cause of the degradation of a large part of mankind is their poverty.

*It is true that wealth is not the end but merely a means, but for all that it cannot but deserve a careful study.**

III. Economics is a Social Science.

Science and Art defined.

A *science* is a body of systematized knowledge and its sole business is to trace the relation between cause and effect. It assumes nothing to be good and nothing to be an evil, and arrives at no conclusion as to what is desirable.

An *art*, on the other hand, has some *practical end in view*. It assumes something to be good and desirable, something else to be bad and undesirable—its object is to ascertain how to secure the one and avoid the other.

Economics is both a Science and an Art.

In the light of the above definitions, Economics is both a science and an art. That portion of Economics is to be regarded as a science which deals with the laws relating to production, distribution, consumption and exchange of wealth ; but those portions of the subject which deal with “what ought to be” rather than with “what is” may be called *applied economics or the art of economics*. When we discuss as to under what circumstances free trade or protection

*“Money is the centre around which economic science clusters, not because money is the main aim of human effort, but it is the one convenient means of measuring human motive on a large scale.”—Marshall.

respectively would be good for India, or discuss as to the best way by which additional taxes can be raised, we may be said to deal with applied economics or *economics considered as an art*.

Economics is a Social Science.

Sciences may be of various kinds, physical, mental, social, etc. *But what sort of science, economics is?* It is neither a physical nor a mental science.* *It is a social science having for its object the study of man as social beings in relation to wealth.* So it does not study man *outside* his social relations. Thus it excludes from the scope of its study:—

(1) *Men who are living outside Society.*—Robinson Crusoe, on being ship-wrecked, took refuge in an uninhabited island, and devoted himself to the task of procuring food, shelter and clothing by himself. Such activities of an isolated creature are never to be construed as social or economic activities. No civilized man can be thought of as living apart from society. *Robinson Crusoe is not a type but an anomaly.*†

(2) *It does not also take notice of labours of love.*—Economics also does not take cognizance of all sorts of social activities, such as various kinds of labours of love rendered without any consideration of payment. The devoted services of a Hindu wife or the affectionate care of an elder brother, are examples of social activities the motives to which do not come within the scope of enquiry of economic science.

*IT IS NOT A PHYSICAL SCIENCE in as much as it does not investigate physical phenomena but merely assumes them as premises.

IT IS NOT A MENTAL SCIENCE in as much as it does not investigate into human motives but assumes them as premises.

† Economics only “takes into account the economic effort of men living with other men, working with others, giving in exchange for the services or good of others their own services or the products of their own labour.”—PENSON.

IV. Nature of Economic Laws.

Simple or Exact Sciences have 'exact laws'.

Sciences have their laws. Sciences are either *simple* or *exact*, or *complex* or *inexact*. In the *simple* or *exact* sciences the laws are exact, that is to say, *they always operate exactly in the same way and without any exception*. The chemical law which states that two atoms of hydrogen and one atom of oxygen on electrolysis will produce water is universally true. Similarly, astronomy is a simple science and its laws are exact. So chemistry and astronomy may be said to be *exact sciences* and their laws to be *exact laws*.

Complex Sciences like Economics have 'inexact laws'.

On the other hand, *complex sciences* have complex or *inexact laws*. The inexact law of the tides explains how "the tides rise and fall twice a day under the action of the Sun and the Moon: and how there are strong tides at *new* and *full* moon."* But unlike the laws of the exact sciences, the laws of tides cannot exactly state *how high the tide would rise on a particular day*. The most we can say is that at the time of the full or new moon there will be a *tendency* for tides to rise high. We have to use the word "probably" which we never have occasion to use when making statements about the operation of the law of *simple* or *exact* sciences, like Astronomy, Chemistry or Physics.

Economic laws are inexact social laws.

Economics deals with human motives which are various and uncertain. So any general statement that can be made about human tendencies must necessarily be *inexact*, though not always faulty. *Economic Laws* are to be compared with the *Laws of Tides* rather than with the laws of exact sciences like Chemistry or Astronomy.

But if we carefully and patiently enquire into the tendencies of human nature and impulses, we can with some degree of confidence lay down certain laws relating to human conduct which *on an average may be applicable to mankind as a whole.**

So MARSHALL DEFINES.—“*Economic Laws or statement of economic tendencies, are social laws relating to branches of conduct in which the strength of the motives chiefly concerned can be measured by a money price.*”

V. Methods of Economics.

Two Chief Methods: Deductive and Inductive.

Method is the name given to the road that must be followed to discover the truth of a science.

Methods may be either *deductive* (Abstract) or *inductive* (Realistic or Concrete).

THE DEDUCTIVE METHOD.—In the deductive method of reasoning conclusions are deduced from general principles to particular facts. Take a concrete example.

Rise in prices leads to a fall in demand (major premise):

Prices rose during the last great War (minor premise):

So during the last great War demand for goods must have fallen (conclusion).

But statistics proves otherwise. Though prices rose during the period of War, the income of people rose more rapidly. So in spite of high prices, purchases of commodities did not fall. *Thus it appears that the deductive method of enquiry is not conclusive.*

THE INDUCTIVE METHOD.—In the inductive method we reason from particular facts to general conclusions. We argue that as America, Germany and Japan have all made great progress in industries by adopting a policy of protection, so all countries would

* THE LAW OF DEMAND IN ECONOMICS STATES that ‘when prices fall men purchase more of things’. But habit, taste, fall or rise in income, introduction of a rival product etc., may have much to do in influencing our decisions.

make similar progress if they adopt the self-same policy. But can it be universally true? Does the industrial progress of a country depend alone on a policy of protection? *So the reasoning does not seem to be conclusive.*

MERITS AND DEMERITS OF THE METHODS.—The *deductive method* is simple and precise; it supplies many valuable conclusions as premises to begin with and it helps to correct inductive reasoning. It trains the intellect for dealing with complex problems. The method, however, wrongly attributes *universality* and *permanence* to economic phenomena.

The merits of the inductive method consist in abstaining from all sweeping generalizations, and in not overlooking subordinate causes. But in inductive reasoning we have to observe facts very carefully and minutely as we cannot make experiments. The method, again, does not accept the validity of some accepted general laws and conclusions.

CONCLUSIONS.—So we may conclude after Prof. Marshall "*that there is not any one method of investigation which can properly be called the method of Economics; but every method must be made serviceable in its proper place, either singly or in combination with others.*"

VI. Departments of Economics.

FOUR DIVISIONS:—The consensus of opinion is in favour of dividing the subject into four departments, Production, Distribution, Exchange and Consumption. There are some writers, however, who do not recognise Consumption as a distinct department, while there are others who identify Distribution with Exchange.

PRODUCTION:—The factors or parties who partake or co-operate in production are five in number. The *landlord* supplies *land or space* on which production is carried on, the *labourer* works or fashions the goods, the *capitalists* supply the raw materials and the instruments of production (machines, tools, etc.), the *business organizer* undertakes the proper management and utilization of the factors of production, while a fifth factor, known as the *enterpriser*, has come into prominence in modern times whose sole function is to supply capital and undertake the risk of the business.

The total product which the factors of production produce in course of a year in the shape of material goods and services in a country is known as the *National Dividend*.

DISTRIBUTION.—The division of the national dividend among the factors of production is the subject-matter of the department of *Distribution*. The factors who co-operate in production, *viz.*, the landlord, the labourer, the capitalist, the entrepreneur and the enterpriser, are remunerated according to their respective services in production by the payment of rent, wages, interest, salaries and profits.

EXCHANGE.—*Production sooner or later invites exchange.* When the factors of production have got their remuneration, they want to secure for themselves their respective necessities. So exchanges begin in an *economic market*. When the instrument of money is absent, exchanges are made by *barter* of goods.

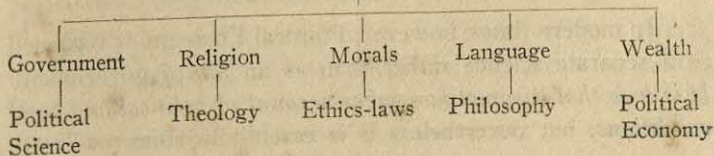
CONSUMPTION.—Finally, when goods have been produced, distributed and exchanged, the factors of production arrange their *consumption* according to the income which they can command. The nature and method of consumption is important because on it depends ultimately the efficiency and well-being of the factors of *production*.

VII. Relation with other Sciences.

Economics and Sociology.

ECONOMICS IS A BRANCH OF SOCIOLOGY. Sociology is the sum-total of all social sciences, each of which treats a particular aspect of the social relations of man, *e.g.*, *psychology* treats of his mental and intellectual nature, *political science* treats of his political nature and relations, *economics* treats of his relations to wealth, *theology* with his religious nature, and so on. Man having various social relations, the study of each aspect of his social relations has given rise to separate sciences.*

*Man a social being, his social relations and the resultant sciences.



Economics may be separated from other social sciences and studied independently.—Prof. Ely, Mill and others agree that Economics (*i.e.*, the science which treats of man's relations to wealth) may be studied separately from the other sciences though the separation must necessarily be partial as one group of social facts cannot be completely separated from other groups.

Comte denies the claim of Economics to be regarded as a separate social science.—According to him a particular aspect of social life can not be isolated from other aspects. Society must be considered in the totality of its elements. Economic questions, he holds, cannot be considered apart from intellectual, moral and political questions.

Economics though a branch of sociology is yet to be regarded as a distinct science.—Taking both the views into consideration, we may, however finally come to the following compromise conclusion:—“*Economics is a branch of sociology; and though it is so, its study must not be confused with other social relations of man, and it is to be regarded as a distinct science dealing primarily and directly with economic phenomena alone.*”

Economics and Politics.

Economics is no longer a branch of Politics but a separate science.—Politics is the science and art of government. Formerly, Political Economy was regarded as a branch of Politics, a part of the art of public finance, rather than that of Social Science.

In modern times, however, Political Economy is regarded as a separate science rather than as an art of government. *It is true that it sometimes takes account of political and legal conditions, but nevertheless it is essentially concerned with*

man in his social (his wealth-getting and wealth-using activities) as distinguished from his political relations.

Economics as an art is intimately connected with Politics.—But with that portion of political economy which deals with *practical topics* (that is, political economy considered as an art), the connection of Politics has become more intimate. *Economics considered as an art (applied economics) has much to do with the state; it has come into existence to better the conditions of the state and its people, and the fulfilment of that mission rests finally upon the state.* It is widely held that for the benefit of the state and the nation it is desirable that the key industries should not be allowed to be controlled by foreigners, and that adequate safeguard should be provided by the state through legislation. Now, this act of safeguarding key industries comprises the art of political economy, and legislation is the instrument which can alone be provided by the State. *So it is said that the art of political economy and politics go together.*

Economics and Ethics.

Ethics like Economics is a branch of sociology and deals with facts in the light of ideals which should be just. Economists, on their part, try to decide and solve economic problems according to ethical ideals. Thus it may be said that Economics is a handmaid of Ethics.

VIII. Importance of Economic Studies.

Importance of economic studies.

Economics deals with human *wants* and with the *efforts* of man to attain *satisfaction* through the production of wealth. *Poverty, no doubt, causes degradation and brings about the moral and material deterioration of mankind.* So the science

which aims at the amelioration of human suffering is undoubtedly a very useful science and is of great practical help in meeting the needs of everyday life.

PRACTICAL IMPORTANCE.—Prof. Marshall emphasises that in *solving practical issues*, economics plays an important part. In Europe and America *legislation enacted on economic principles have helped most to improve the condition of the working classes*. Traders, industrialists, financiers and statesmen derive great benefit from economic studies.

In the solution of social problems, economics to-day is the first-rate arbiter. The most important argument in favour of the abolition of slavery was economic, *viz.*, a free labourer is cheaper to the employer than a slave.

THEORETICAL IMPORTANCE.—More than any other science, Economics *quickens our intellect and faculties* as the object of the science is to find out a uniformity among the variable motives of everyday life of an often variable man.

CHAPTER II.

DEVELOPMENT OF ECONOMIC LIFE.

Development of Economic Life Simple to Complex.

Wants led the primitive man to *effort* and efforts brought in *satisfaction*. A critical study of the evolution of economic life and activities would be instructive.

A.—Simple Economic Life

Characterised by individual effort.

Stage I. Direct effort.

WANTS WERE FEW: EVERYBODY PRODUCED WHAT HE WANTED.—*The wants of the savages were few*, the chief among them were food, shelter, weapons, ornament, etc. *Wants led to individual efforts which resulted in 'direct satisfaction,'*—everybody produced only those goods which he himself or his family wanted.

Stage II. Indirect Effort.

INTER-DEPENDENCE LED TO DIVISION OF LABOUR AND EXCHANGE.—As population increased, wants became a little more diversified, and *interdependence began*. Suppose some hunters who became injured in hunting games, were enforced to sit idle at home. To live, they took to bow and arrow-making as a trade, and procured their living by *exchanging* their products for meat. Gradually, all the hunters gave up making their weapons themselves and entirely depended upon those who specialised themselves in the craft.

B.—Complex Economic Life:

Characterized by collective efforts.

Stage III. The Industrial Group.

As economic life became more and more complex, *association* and *co-operation* among producers became more pronounced. Division of labour was extended in the sense that not only different people plied on different trades, but each trade was divided into a number of processes and for each process a particular individual was employed, as such a division of labour (minute division of labour) led to greater productivity. The weaver's art of manufacturing a piece of cloth from carding and spinning to weaving was divided, say, into six processes and for each process a particular individual was employed.

Minute division of labour led to payment by groups.

Formerly, the *individual* hunter used to exchange his meat with the *individual* weaver, but now the whole group of weavers (including all those who took part from carding to weaving) got in exchange for the total supply of cloth a *lump* of meat, which the group *distributed among its members* in proportion to the respective services of each. *Payment by groups thus gave rise to the problem of 'distribution.'*

Stage IV. The use of Money.

With the introduction of money, barter was *substituted* by money economy and the difficulty of exchange was simplified.

Production was now carried through the efforts of a great many groups. In the supply of a simple shirt, there must work sheep farmers, carriers and bankers, wool merchants, spinners, weavers, and tailors. Exchanges now took place

through money. *Satisfaction of want at this stage became more indirect than ever.* Few people set themselves to produce their own food but each one worked to produce an *income* with which to supply himself with food.

EVOLUTION OF ECONOMIC ORDER

Evolution of Economic Order.

In primitive ages the world was lived by mammoth animals and by a few *hunters* who lived a precarious living. Gradually, the latter learnt to domesticate animals like sheep and goats and thus became *shepherds and herdsmen* in place of hunters. In the next stage, they learnt to appropriate fruits of trees and roots of plants and grew into *farmers*. Until then men lived a nomadic life.

After the discovery of fire and iron *agricultural* life improved and civilisation advanced. Land-grabbing began and powerful men took possession of them. They became *landlords* and built houses and provided themselves with better clothes and food.

Villages then sprang into existence and *market* and *exchange* through barter evolved. *Interdependence* and *co-operation* became now the characteristics of the new economic order.

The key to power was still land. The landlords held it from the king and the system came to be known as *feudal*.

In the meantime market expanded and towns grew up. The growing wealth of the traders and craftsmen enabled them to wrest economic freedom from the feudal lords.

Lastly, there evolved the present economic order. Economic interdependence is now not only national but international. Money and machinery are now the most important factors of production. Power has passed into the hands of the capitalist. Production is now guided and limited by the element of profit. (*Elementary Economics—Ghosh, Chap. III.*)

CHAPTER III.

SOME FUNDAMENTAL CONCEPTS.

I. Terminology in Economics.

Economists try to avoid the use of technical terms as much as possible and propose to accept and use the familiar terms of everyday life. They *only* propose to add *special interpretation* when any word has several shades of meaning in the everyday language.

II. The Definition of Wealth.

WHAT WEALTH IMPLIES.—In ordinary language the term *wealth brings* to our mind the idea of a rich person.* But in the economic language the term wealth implies the idea of *useful or desirable material possessions which can satisfy a want*. So even a beggar who has only a loin cloth and a brass plate may be said to possess wealth. *Wealth is a very important means to welfare.*

Any means of satisfaction is called a *good*. Goods consist of things, material or non-material, which satisfy human wants. So goods *generally* constitute wealth. *But all goods are not wealth.*

Goods may be classified as "free" and "economic" goods.

*PENSON says that "in *ordinary speech* wealth is contrasted with poverty. It is another name for riches. A man is said to be wealthy when he has ample means. But in the economic sense of the term, both the rich man and the poor have wealth, the former having much of it, and the latter but little."

DISTINCTION BETWEEN 'FREE' AND 'ECONOMIC' GOODS.—

The *power to satisfy a want* (i.e., the possession of utility) is not enough to constitute a thing as wealth. Some amount of *human exertion must be spent to produce or appropriate it*. That is to say, wealth is the result of effort.* There are some goods which have been given to us by nature directly and no human effort has been spent upon them to appropriate them for human use. They may be called *free goods* as opposed to *economic goods* which are the results of human effort. A meteoric stone, or wood in some Brazilian forests, is still free. They are not the property of any person, that is to say, they belong to none. So long as they are not appropriated† by man (as the result of effort) they are free goods and are not to be considered economic wealth.

Again, there are some *free goods which are so unlimited in supply* that they can never fetch any price in a market e.g., air and water. Such free goods, which can be had for the asking in any amount by any person can never be regarded as wealth of any particular individual. "Scarcity," says Prof. Taussig, "is the earmark of an economic good—scarcity, that is relatively to the demand."‡

* PENSON says that 'anything to be regarded as wealth must satisfy two conditions: (1) *it must have power to satisfy a want*, (2) *it must be the result of effort*'. A piano is no wealth to a savage so long as he does not know how to utilise it; nor the sands of Sahara is wealth.

† The idea of appropriation involves the quality of *transferability* or *exchangeability*. A man who has appropriated a thing must be in exclusive possession of it and should possess the right of alienating it in his own right.

‡ "Wealth denotes scarce means of satisfying wants and desires. *Scarce goods* are therefore wealth. Goods, if abundant are not wealth.—Ghosh, *Elementary Economics*.

"The air we breathe satisfies a want but we can obtain it without effort, it can be had as we say for the wishing, therefore it is not to be regarded as wealth. But to the diver in the hold of the wreck, air is wealth for *effort is needed* to keep him supplied with it."—PENSON.

Attributes of Wealth.

So we may finally conclude that a thing to be considered as wealth must possess the following attributes :—

(1) IT MUST POSSESS UTILITY, *i.e.* it must satisfy a want.
 (2) IT MUST BE LIMITED IN QUANTITY, *i.e.*, it must not be abundantly found in nature and be freely available.

(3) IT MUST BE THE RESULT OF EFFORT, *i.e.*, human energy must be expended in producing or appropriating it.

(4) IT MUST BE TRANSFERABLE.—As the result of appropriation, a man must be in exclusive possession of wealth and should therefore possess the right of alienating it in his own right. This attribute leads to the exclusion of many things from the category of wealth which are unquestionably better than wealth, *e.g.*, health, climate, sunshine, good scenery, etc.

(5) IT MUST BE CAPABLE OF BEING APPROPRIATED TO MAN'S USE.—The rays of the sun has great utility but as it cannot be conveniently used or appropriated by man it is not to be regarded as wealth. If the discoveries of science ever enable man to harness them for his material improvements then only at that stage they will be considered as wealth.

Wealth comprise both material and non-material goods.

Some economists erroneously state that only *material objects*, *i.e.*, 'objects which we can perceive by our senses, or we can store up or pass on to others' (*e.g.*, houses, food, dresses, etc.) or "vendible commodities" (as the term has been used by Adam Smith), constitute wealth.

But is it not a fact that there are also *immaterial* or *non-material goods* or services which satisfy our urgent wants,

require the most strenuous effort to produce or appropriate, are not free goods, and are transferable, *e.g.*, the services of teachers and physicians, soldiers and sailors who protect us, domestic servants, railway and postal officials, etc? Non-material goods may include *the right to material wealth*, for example, 'the good will of a business' which is saleable or transferable. Penson says that it would be taking a very narrow view of the case to consider only material objects as wealth. Broadly speaking, *wealth includes both material and immaterial things, i.e., services as well as commodities.*

So our final definition of Wealth is: Wealth consists of things or *goods* which satisfy human wants, is the result of effort or of appropriation of free goods, is scarce and not unlimited in quantity.

III. Kinds of Wealth.

Wealth may be classified from three standpoints.

I. Individual wealth, *i.e., wealth considered from individual point of view.* It refers to a *person's wealth* as well as *personal wealth.*

II. National wealth, *i.e., wealth considered from national point of view.*

III. Cosmopolitan wealth, *i.e., wealth considered from the standpoint of human progress.*

1. AN INDIVIDUAL OR "A PERSON'S WEALTH" consists of his stock of two classes of goods:—

(a) Those *material goods* to which he has (by law or custom) *private rights of property*, *e.g.*, land and houses, shares in joint-stock companies, etc.

(b) Those *immaterial goods* (excluding one's personal qualities and abilities) which belong to him, and serve *directly* as the means of enabling him to acquire material goods. Thus it includes all his business and professional connections.

PERSONAL WEALTH consists of "all those energies, faculties and habits which directly contribute to making people industrially efficient; together with those business connections and associations

of any kind." Thus health, intelligence, etc., may be regarded as a kind of wealth according to this definition. But economists point out that *possessions of properties like health, abilities, etc., may be better or more desirable than wealth, but not wealth in the economic sense, since they cannot be exchanged or transferred.*

2. NATIONAL WEALTH consists of the following:—

(a) *A sum-total of the individual wealth of all the members of a nation.*

(b) *The total of the 'collective wealth' of the society i.e., goods enjoyed collectively or in common by all members of the nation, e.g., canals, roads, parks, etc.*

(c) *Some kinds of free goods.* For example, the Ganges which is a free gift of nature, contributes most to the growth of wealth in India in various ways, *e.g.,* by supplying water for irrigation, by supplying power for water mills, by supplying silts for fertilisation of the soil, by carrying even up to this day half the internal trade of India and by a multiplicity of other services. But the unworked mineral resources of a country are merely *natural and potential wealth and not economic wealth.*

3. COSMOPOLITAN WEALTH is nothing more than the aggregate of national wealth of all countries *enjoyed in common by all nationalities.* They include such things as scientific discoveries not patented, the right of publishing literary works the copyrights of which have expired, *e.g.,* the works of Shakespeare, Kalidas, and others.

IV. Meaning of Utility.

Utility means the capacity of satisfying human wants. It depends on two things, *first*, on what is felt by man, and *secondly*, on the existence of an object capable of satisfying wants. The *falls of Niagra* did exist from the beginning of the world but it did not represent wealth until men learned to utilize its motive power which it, however, all along possessed.

Utility and Morality.

An object which may not be beneficial either to body or to mind, may be regarded by economists as useful if 'it answers

a felt human want.' A man is said to derive utility from a bottle of wine if it is believed to bring him any satisfaction. "Anything that satisfies a want," says Seager, "has utility and is good, whether it be the whisky of the trader, or the hymn-book of the missionary."

V. The Law of Diminishing Utility.

Human wants are various and unlimited in number and so unsatiable. **But a particular want is satiable.** For example, when there is a small amount of supply of a commodity the utility from additional units of supply may increase: but after a certain point is reached it continually diminishes and ultimately falls to zero and then passes into disutility and that also continually increases. "There is no significant inaccuracy," says TAUSSIG, "in speaking of the law as universal."

Illustration.

A *swandesh* or two from 'Bhim Nag' may merely whet one's appetite, the third or the fourth unit may yield increasing pleasure or utility; while the fifth and the sixth may fully satisfy his hunger. Next, supply of further additional units will surely give him diminishing pleasure or utility. Finally, if he be pressed to take as many as a dozen, from the last he may derive no or zero utility. If the man is still forced to swallow more, then instead of deriving the least pleasure from eating a *swandesh*, he will derive positive displeasure or disutility and will suffer from nausea.

Conditions of the Operation of the Law.

The law applies to a particular article at a particular period of time, at a particular place with reference to a particular individual, the intensity of wants remaining the same and the purchasing power of money remaining unaltered. In short, other things remaining the same, the law will have almost universal application.

ILLUSTRATION.—*To resume our example.* The law would not have the opportunity to operate if the man consuming *swandesh* substitutes a portion of it by *kachuri* for which he has a special liking. The law only operates when a man goes on consuming the same article. Again, the consumption must continue simultaneously. A man would not feel diminishing utility if he takes 100 *swandesh* in course of a whole week. Similarly, in order to entertain some friends a man may purchase a few seers and feel no disutility; and even in company of his friends a man may swallow more without experiencing the same amount of diminishing utility as he might have experienced when eating at home without company. That is to say, the utility of an individual for the same thing differs at different places. On the other hand, a man may not derive the same utility as before from the purchase of a *swandesh* when he is out of employment, the marginal utility of money having gone high.

Law of demand and diminishing utility.

The Law of Demand is based on the experience of the law of diminishing utility, *i.e.*, the stability of wants. The law of demand states that "*the greater the amount to be sold, the smaller must be the price at which it is offered in order that it may find purchasers.*" That is to say, the price of a thing must be lowered as the utility of the thing diminishes on an increase in supply. If the price is not lowered, then only the earlier units which satisfy more urgent needs or demand will be sold leaving a larger surplus of unsold goods on hand.

Total Utility.—Total utility of a commodity is the sum total of the utilities derived from the consumption of all the units of supply of a thing. If a person consumes 5 lbs. of tea in a month, the total utility may be said to consist of the sum of the utilities which he derives from consumption of the first, second, third, fourth and fifth lb. of tea in a month; of course, the man derives less and less utility from each succeeding units, and though the total utility increases with every increase in consumption yet it does not increase proportionately. *So long as the utility from an additional unit does not reach zero, the total utility increases, though*

at a lessening rate, but after the zero point is passed the total utility diminishes as the disutility increases.

TOTAL UTILITY from 1 lb.=100.

" " from 2 lbs. $100+80=180$.

" " from 3 lbs. $=100+80+60=240$.

" " from 4 lbs. $=100+80+60+30=270$.

" " from 5 lbs. $=100+80+60+30+0=270$.

TOTAL UTILITY from 6 lbs. $=100+80+60+30+0-10=260$.

" " from 7 lbs. $=100+80+60+30+0-10-20=240$.

It is, however, the most commonplace experience about human wants that nobody would deliberately spend his income on anything knowing full well that it is not expected to procure for him any utility. Such uneconomic investments are only possible under misadventure and foolishness.

Marginal Purchase and marginal or final utility.

When the consumer considers that the utility derived from the last unit of purchase will *just pay* for his investment, and is just induced to purchase, then such a purchase is to be called *marginal purchase* and the utility derived from such a marginal purchase is to be described as *marginal utility*. Thus marginal utility may be said to be the utility derived from the last unit of purchase of a commodity.

We give below concrete examples explaining ideas of Marginal Purchase, Marginal Demand Price, Total Utility and Marginal Utility.

Pounds of butter Available Supply.	Marginal demand price per lb.	Utility derived from increasing doses of consumption	Total utility	Marginal utility.	Marginal Purchase
1	Rs. 2	100	100	100	1st lb.
2	Rs. 1-8	$100+80=$	180	80	2nd lb.
3	As. 15	$100+80+50=$	230	50	3rd lb.
4	As. 14	$100+80+50+40=$	270	40	4th lb.
5	As. 12	$100+80+50+40+20$	290	20	5th lb.

Limitations to the Law of Diminishing Utility.

We have already noted that on certain conditions being fulfilled, *the law of Diminishing Utility is almost universal in its application.* But PROF. CHAPMAN advances certain limitations, which however on critical examination are found to support the theory rather than demolishing it.

SOME OF THE IMPORTANT LIMITATIONS PUT FORWARD ARE:—

(1) *Marginal utilities of certain commodities rise by additional supply.* A few ounces of coal are of no use. A large supply makes it useful. But uninterrupted supply brings diminishing utility.

(2) *In some cases additional supply adds to the uniqueness and consequent utility of a thing.* A collector of Raphael's original paintings would add more value to his collection if he can secure more and more of them.

(3) *The marginal utilities of certain things to individuals are sensibly governed, not by the quantities of those things which they possess, but also by the quantities of them possessed by other people.* The value of a telephone to any user is said to increase rather than diminish, when more people get linked on to the service.

(4) *The marginal utility of a person's income as a whole might actually rise as his income increases.* A man with a passion for politics is helpless with an income of £1000 a year. But with an income of £2000, it becomes possible for him to seek to enter Parliament. So the last £ of the larger income becomes more valuable than the last £ of the smaller income.

(5) *The value of a thing is almost sure to depend in some degree upon the abundance of other things which its owner possesses.* The value of a fourth bedstead rises when a poor man inherits a fortune or a pension.

VI. Meaning of Value.

Value in use and Value in exchange.

The term *value* is closely related to *wealth*. It has two different meanings, *the value in use* and *value in exchange*.

VALUE IN USE.—It is synonymous with *utility* and refers to the *value of a thing measured according to utility*.

VALUE IN EXCHANGE.—The *value in exchange* is the form of value with which we are concerned in economics. *Value in exchange* means the power in exchange, i.e., 'the power which an article confers upon its possessor, irrespective of legal authority or personal sentiments of commanding in exchange for itself the labour or the products of the labour of others.'

Thus while *value in use* implies merely the utility of a thing, *value in exchange* implies how much of other things would exchange for an article.

The term *value* implies three ideas, *utility, scarcity and relativity* (an idea of ratio). A thing to possess value must have *demand* or utility and its *supply* must not be unlimited, that is, should be scarce. Value expresses the ratio of exchange between goods, for example, how a seer of rice exchanges for two seers of potatoes.

Barter.—The direct exchange of goods for other goods is called *barter*. The system was inconvenient as a person who wanted to barter his goods had to find out not only a person whose goods he was in need of but also such a person who was in need of his goods. For example, a hat-maker was not only to find out a shoe-maker whose shoes he was in need of, but such a shoe-maker who was also in need of his hats.

Relation between Value and Utility.

Some articles may have great utility but they may have no value, e.g., free goods like air, water, etc.; while other articles like diamonds, etc., which are only articles of display may have very high (exchange) value, *scarcity* being the most important factor contributing to such high values.

What is Price?

After the introduction of money the value of goods is rarely expressed in terms of other goods. *When value (exchange value) is expressed in terms of money, whether in silver or gold, it is called price.*

What is value of Money?

Value of money implies its purchasing power. How much a rupee can purchase of other goods, say, of rice or wheat? This purchasing power or value of money (*e.g.*, of the rupee) rises and falls like the value of other goods. A rupee may purchase ten seers of rice today and fifteen seers the next year, or *vice versa*. But usually the changes in the purchasing power are spread over such a long period of time that we need rarely take account of it in the daily existence of our life.

CHAPTER IV.

PRODUCTION : ITS BASIS.

I. What is Production.

What is produced or consumed?

We have wants. We try to satisfy them by production. We must, however, remember that production does not mean *creation of new matter*. Man cannot create matter. All that he can do is to *re-arrange matter in such a way as to make it more useful to man*. That is to say, man can merely create utilities, and production in economics means the *creation of new or additional utilities*.*

Similarly, the corresponding term *consumption* means, the consumption of "utilities" and not of matter—"a *dis-arrangement of matter, which lessens or destroys its utilities*."†

Definition of Production.

So production may be defined as *the application of effort to produce utilities in order that we may satisfy our wants*.

*PROF. CHAPMAN says, "production is making utilities." Widely understood it covers:—(1) Obtaining things which grow, *e.g.*, fishing, etc. (2) Obtaining things which do not grow in the ordinary sense, *e.g.*, coal-mining, etc. (3) The manufacture of things. (4) Transporting things. (5) Arranging for the distribution of things, *e.g.*, the performance of the commercial functions of disposing of goods among those who want them. (6) The direct furnishing of services to consumers, *e.g.*, domestic service of a servant, manager, etc.

†Production means not the creation of matter but the increment of utilities and satisfaction. Consumption similarly relates to the decrement of utilities by enjoyment or use and not to destruction of matter."—Ghosh, *Elementary Economics*.

Forms of Production or Creation of Utilities.

The creation of utilities or production may take several forms.

Form utility. We may create utility by giving a new form to a thing. When a table is manufactured out of a log of wood, we have an instance of production or creation of utilities by the change of form only.

Place utility. This consists in the transportation of goods from one place where it can be had in abundance to places where it is scarce. The people who are engaged in the trade of carrying *hilsa fish* from Goalundo, where it can be had usually at two annas each, to Calcutta, where it sells for As. 12 for their relative scarcity to demand, are producers in the same way as producers of corn and may be said to create *place utility*.

Time utility. Similarly, we may create *time utility*, by making a thing available at a time when it can not be usually had. If *Langra* mangoes, which are so cheap during the month of June but unavailable in September are preserved by condiment manufacturers and are made available during all seasons of the year, then we cannot gainsay that such persons are producing or creating (time) utilities.

All men are more or less producers.

The fisherman, the miner, the manufacturer, the railway-man, the shipowners, the domestic servants, the pedlar, the factory girl, the messenger boy, the capitalist, the banker, the landlord, are all producers. "*Production* in its wider sense *not only covers the whole effort from start to finish (e.g., from the growing of the raw material to the delivery to the consumer of the finished product) but it covers as well the services rendered by all who have in any way contributed to the final result (i.e., even of those who by placing*

their wealth, whether it be land or capital, at the disposal of the workers have contributed in no small degree to the satisfaction of human wants.")—PENSON.

II. Factors or Agents of Production.

The Five Factors.

In order to produce, the co-operation of the factors of production, *viz.*, of *land, labour, capital, organization and enterprise*, is necessary. But the presence of *all* these five factors may not always be necessary.

Penson's classification of the factors of production.

The requirements of productive effort may broadly be classified under two heads : (A) Human activity and (B) External aids.

A. Human activity.

- (a) Labour.
- (b) Organization.
- (c) Enterprise.

B. External Aids.

- (d) Gifts of Nature (Land).
- (e) *Capital*.

A. Forms of human activities include labour, organization and enterprise.

(a) **LABOUR.**—It may be of several kinds—of the employers, of the employed, of the brain worker and of the artisan. It may be *skilled*, requiring thought, knowledge and dexterity, or may be *unskilled*, requiring mere physical strength.

(b) **ORGANIZATION.**—With larger concentration of labour and capital in mammoth factories, the problem of organization has come to the forefront. To avoid economic waste of the factors of production a specially trained class of business managers has become necessary. Like a general, it is his function to marshal the industrial forces under his command.

(c) **ENTERPRISE.**—The taking of *risks* incidental to modern industrial system may well be a separate function in production. Erroneously it is believed that this function is included within the

function of the organizer. The latter to-day is mostly paid or salaried people. The whole risk of a business is being undertaken now-a-days by the owners of capital—as for example, by the shareholders of a joint-stock company.

Prof. Ghosh refuses to recognize the Enterpriser as a distinct factor. He prefers to retain the functions of the organiser and the enterpriser combined under the same hands—of the Entrepreneur.

B. External Aids consist of *Gifts of Nature or land, and Capital*.

(a) In Economics, *Gifts of Nature* should not merely include land. Nature supplies not only the soil and its properties, but vast stores of mineral wealth, air, climatic conditions, animal and vegetable life, and forces like heat and light, wind and water, steam and electricity.

(b) Capital is that part of a man's wealth which has been productively employed to yield an income.

III. Relative importance of the Factors.

EARLY PRE-EMINENCE OF LAND.

Of the five agents of production, *land* and *labour* are considered to be the most important. In the earlier stage, the inability of man to coerce and control nature has made him subservient to it. With the progress of civilization, the *labour factor* has attained greater prominence.

LABOUR, CAPITAL AND ORGANIZATION.

Later, the accumulation and exploitation of labour created *capital*, which ultimately took shape in the form of machinery and steam power and finally challenged the supremacy of labour itself. The concentration of labour and capital on a large scale in large business undertakings emphasized the need for *organization*, the fourth factor in production. Organization aims to avoid misdirection of labour and capital and to ensure efficient production.

LAND AND CAPITAL ARE NOT TO BE IGNORED.

Some think that *human beings are alone capable of efforts* and therefore *land and capital* are not to be considered as taking any part in production*. But it must not be forgotten that in societies where private property in land and things have been recognized, the owners of such gifts of nature (land) and also of capital by placing themselves at the disposal of producers occupy today, though indirectly; an increasingly important share in the productive efforts.

FACTORS ACT COLLECTIVELY.

PENSON'S VIEW. The productive effort is a *collective one*. It embraces the services rendered by *landlords, by employers and employed, by capitalists and by those who undertake the risks*.

*GIDE says that labour is the only one factor that can claim to be an agent of production in the exact sense of the term. Only man plays an active part: nature is absolutely passive and merely obeys man. Nevertheless, he acknowledges that *nature* (land) is indispensable to production. It is a factor of production in as much as it is not a necessary concomitant of labour but must exist beforehand. But *land should not be called an agent of production as it plays purely a passive part*.

PROF. CHAPMAN, again, says that though *capital* is not an original, irreducible element in production, it is to be recognized as one of the agents of production.

CHAPTER V.

PHYSICAL BASIS OF PRODUCTION.

Economic Land.

Land: what it includes.

In the economic sense, land or gifts of nature include something more than the mere surface of the earth. It includes :—

- (a) *The soil and all its properties;*
- (b) *the store of mineral wealth below the surface;*
- (c) *the surface of the sea, rivers and lakes;*
- (d) *the various forms of animal and vegetable life, each endowed with the powers of production;*
- (e) *the climatic conditions which assist or hinder man's economic efforts;*
- (f) *and natural forces of various kinds, such as light and heat, wind and water, steam and electricity.*

Land not only supplies the *standing room for production* but all the accessories to production, *viz.*, fertility, natural forces of all kinds, all stored up resources, and even life. *Thus land seems to be indispensable to production.*

The economist's use of the term "land" thus appears to have a much wider connotation than what is popularly understood by the term.

II. Conditions of Productivity of Land.

THE PRODUCTIVE EFFICIENCY OF LAND, SAYS PENSON DEPENDS UPON NATURAL, SOCIAL AND ECONOMIC CONDITIONS.

A. The natural condition: The geographical location or situation of the soil, the climatic conditions

affecting it, the mineral substances lying underground, the chemical and mechanical properties of the soil and of the subsoil, and the local (such as of rivers, canals, springs, etc.) and underground water supply are the favourable natural conditions that accelerate the productive efficiency of land.

B. The social condition: The proximity to the market, the growth of population and industry in the neighbourhood, improved system of land tenure, and the improvement in transport and communication are the favourable social conditions that accelerate the productive efficiency of land.

C. The economic condition.—It refers to the investment of labour and capital. The application of manure, improvement of drainage, extension of irrigation, reclamation of waste and water-logged lands, utilization of water power and electricity, employment of machinery for agricultural purposes, etc. improves the productivity of land.

Peculiar Characteristics of Land.

Land possesses the following special characteristics as distinguished from labour and capital :—

(a) *The supply of land is practically limited.*—The supply of land is fixed in quantity unlike the supply of labour and capital and man-made articles.

(b) *The supply of land cannot be destroyed.*—For all practical purposes land is indestructible.

(c) *The quality of land varies remarkably.*—The quality of land ranges from the most fertile to the arid waste.

(d) *The Law of Diminishing Returns operates specially in agriculture.*

* Productivity implies that a certain amount of physical produce can be obtained from a given area with comparatively less sacrifice of cost or effort.

III. The Law of Diminishing Returns.

The law that applies to production of agricultural crops is known as the *Law of Diminishing Returns*.

Provisional definition of the Law.

PROF. MARSHALL HAS THUS DEFINED THE LAW PROVISIONALLY:—"An increase in the capital and labour applied in the cultivation of land causes 'in general' a less than proportionate increase in the amount of produce raised."

That is to say, if we go on applying more and more amount of labour and capital upon a particular plot of land, *other things remaining the same*, the land would yield per application of each successive or additional investment (dose)* of labour and capital a less and less amount of produce. *Diminishing returns is usually said to operate as soon as the yield from a dose is found to be less than the amount of yield from the previous dose.*

The diminution of product per application of each additional dose of labour and capital would follow until a stage is reached when the additional product raised by the application of a dose may not pay for its cost.†

With 1	unit of labour and capital, farmer gets	10	mds wheat, i.e.	10	mds. for 1st unit				
" 2	"	"	"	25	"	"	15	"	2nd
" 3	"	"	"	36	"	"	11	"	3rd
" 4	"	"	"	45	"	"	9	"	4th

* The word "dose" implies a composition of certain fixed amount of labour and capital which is successively applied on land, each dose being equal to another. James Mill first used the term. The word seems to have been borrowed from the prescription book of a medical practitioner.

† We can state the Law of Diminishing Returns, says Prof. Ghosh, in another form: *viz.*, the cost per unit of a commodity tends to increase as total amount produced increases. It may properly be called a law of cost (not a law of return). As the cost per unit increases with the total amount raised, it may be called the law of increasing cost.

Thus it is clear that though the second unit or dose for some special reasons yields a proportionately larger amount of produce, the third and the fourth dose each yields proportionately diminishing amount of produce.

A CONCRETE EXAMPLE.—Suppose, a farmer who formerly used to cultivate his plot of land with the help of a labourer and with Rs. 2 as capital and raised only 10 mds. of wheat, now *requires twice as much produce*. So he employs an additional labourer, and manures, irrigates, ploughs, fences, etc., his soil with twice as much capital as before (*i.e.*, applies twice as much labour and capital, or in short, 2 labourers and Rs. 4 as capital). As a result he is found to secure 25 mds. of wheat (10 mds. from the first dose *plus* 15 mds. from the second dose) instead of 20 mds. only. Here the return is found to *increase disproportionately* to investment of labour and capital.

Being thus encouraged, the farmer is tempted to employ a third hired labourer and three times as much his original investment of capital (*i.e.*, 3 labourers and Rs. 6 as capital) with the result that he obtains 36 mds. of wheat (10+15+11). The third dose is thus found to yield only 11 mds., a decrease of 4 mds., than what the previous (second) dose did yield. But being doubtful as to whether the diminishing return from the application of the third dose was due to other extraneous circumstances, he employs on his land a fourth labourer and more capital (*i.e.*, 4 labourers and Rs. 8 as capital), but finds that he gets only 45 mds. (10+15+11+9 mds.) of wheat.

At this stage he cannot but be thoroughly convinced of the fact that while the second additional dose of labour and capital had given *increasing returns in produce*, the third and the fourth doses of labour and capital did yield proportionately less or *diminishing produce or returns*. We explain the thing below as follows:—

Dose	Cost of doses.	Total yield in mds.	Market Value of wheat, per md.	Net value of crops	Profit or Loss
1	Rs. 4	3 mds.	Rs. 2 per md.	$3 \times 2 = 4$	Rs. + 2
1+1	Rs. 4 × 2	5 mds.	" "	$5 \times 2 = 8$	Rs. + 2
1+1+1	Rs. 4 × 3	6 mds.	" "	$6 \times 2 = 12$	Rs. Nil.
1+1+1+1	Rs. 4 × 4	$6\frac{1}{2}$ mds.	" "	$6\frac{1}{2} \times 2 = 16$	Rs. - 3

It is, however, to be remembered that the *increasing return* from the second dose does not prove that the law of increasing returns

operators in agriculture. Disproportionate increase in product suddenly occurred as the first dose was not sufficient to develop properly the fertility of the soil. *This law is not, however, a law of Economics, but a law of the science of agriculture.*

Why people produce under Diminishing Returns.

People produce under diminishing returns when (a) population increases and the food supply and the raw materials for manufacture have all to be obtained from existing lands. The *limitation of the supply of land* is the real cause why people cultivate under the law of diminishing returns. (2) *Relative scarcity in natural bounty i.e., fertility* in some countries lead to production under diminishing returns. *Improvement* of the conditions of production can alone postpone the operation of the law.—(Read, Ghosh—Elementary Economics, p. 64—65, Vol. I).

Causes of the operation of the Law.

MARSHALL'S VIEW: MAN CANNOT CONQUER NATURE.

Both man and nature contribute to the fertility of the soil. By *artificial* means man can improve the soil both *chemically*, e.g., by manuring it, and *mechanically*, such as by irrigating it, etc. Nature, on her part, contributes to fertility by allowing per every square feet of land a *fixed annuity* of heat, light, air, water, moisture, etc. These contributions cannot be increased by man, nor nature would even be coaxed to increase it. Thus a mere increase in the application of labour and capital upon land cannot thoroughly develop its fertility. So Nature and not man may be said to be responsible for the operation of the Law of Diminishing Returns. If Nature responded equally with man then there would not have been any operation of the Law of Diminishing Returns. If man can ever conquer nature and supply heat, light, moisture, etc. to land according as he likes then the law of diminishing returns would not apply to land.

IV. D. R. in Agriculture and Manufacture.

Penson says that many think that the law of diminishing returns always operates in agriculture, while the law of increasing returns operates in manufacture. *"But this is not really the case, and the earlier writers were wrong in drawing this line between them."*

Productivity depends partly (a) on the efficiency of the factors of production and partly (b) on the way the factors of production are combined in the process of production. The business organizer is to combine the factors of production in such proportions as to secure the best results. But if any one of the factors, say land, is for the time being fixed in quantity and cannot be varied at will, he cannot secure the best results. So Penson states that in agricultural production the frequent inability of an agriculturist to vary the application of the factor of production—land (which is fixed in quantity), is the cause of diminishing returns in agriculture.

Diminishing Returns in Agriculture.

PENSON thus illustrates his case. An agriculturist finds that at the proportion of 10 acres of land, 10 units of labour and 20 units of capital he can produce the best result and can secure a maximum amount of crops. Now, if he requires double the quantity of produce, it is natural that he should double the use of the three factors, including the land. But if it is not possible to double the quantity of land, and if it necessarily remains only 10 acres while the

* "Every acre has given to it by nature an annual income of heat and light, of air and moisture; and over these man has but little control." He cannot increase the annuity fixed by nature for each plot of land. THIS IS THE GENESIS OF THE LAW OF DIMINISHING RETURNS. So Marshall states: *"The part nature plays in production conforms to the law of diminishing returns and the part which man plays conforms to the law of increasing returns."*

two other factors are doubled, then *evidently the produce would be proportionately less* since the best combination of the factors are at the ratios of 20: 20: 40 and not at 10: 20: 40. If the proper ratio be not maintained then evidently the yield would be less and the law would operate.

Diminishing Returns in manufacture.

Suppose, on the other hand, in manufacture, an organizer finds that land, labour and capital in the proportion of 5: 15: 20, gives him the best results. Now, if he requires double the quantity of products, he is to double his factors to 10:30:40. This the manufacturer can easily do, the total quantity of land required being insignificant. The advantage of such a doubling of the factors not only helps to secure double the former output, but also *secures in addition the advantages of the economy of large-scale production*. In short, the manufacturer reaps an increasing returns. In other words, *the law of increasing returns operates in manufacture because the factors of production can be easily varied so as to produce the best results*. But if an organizer fails to apply the factors in their proper proportion then the law of diminishing returns would surely operate even in manufacture.*

Final statement of the Law of Diminishing Returns.

We have seen Prof. Marshall using the term "*in general*" in his statement of the law.

* Diminishing Returns is really the outcome of the relative insufficiency of a particular factor of production. So the law need not be regarded as peculiar to only extractive industries, *vis.*, agriculture and mining but also to constructive industries like manufacture and transport whenever the supply of their plants fail to respond to their demand. But it is rare that labour and capital will fail to increase the supply of plants except in the short period. So diminishing returns apply to manufacture only in the short period—

By "in general" he implied that except under the following special circumstances the operation of the law may never be postponed.

(1) *In a new country the operation of the law seems to remain postponed even when increasing doses of labour and capital are employed.*

In a new country where virgin lands are abundant, the application of increasing doses of labour and capital may lead at the first stages to increasing returns. But as time goes on and more and more labour and capital are invested on land and it becomes fully developed, an investment of additional doses of labour and capital would lead to the operation of the law of diminishing returns. *In older countries the law operates without any exception.*

(2) *An improvement in the art or science of agriculture may postpone temporarily the operation of the law.*

The improvement in the art or science of agriculture may improve the fertility of land and its productivity. So the operation of the law may be postponed even when a number of additional doses have been applied. But the law would ultimately operate.

(3) *Improvement of agricultural skill may also postpone the operation of the law.*

Improvement in the skill of the agriculturists may have the effect of increasing the productivity of land. But the phenomenon would not continue for a sufficiently long period.

A steady application of labour and capital would ultimately be followed by the operation of the law of diminishing returns. *In short, the law is inexorable.* It may be temporarily checked but not permanently. "The evil day is deferred only, but it is merely deferred." In old countries like India the law is already in operation, while in the United States, Canada, Australia, Newzealand and others, where virgin lands are still available in plenty and their productivity has not been fully exploited, the law has not as yet come into operation.

Application of the law.

To FISHERIES.

If increasing doses of labour and capital (in the shape of new boats, new nets and new recruits of fisherman) be applied in the fishing trade, *the law would surely operate*, that is to say, the catches of fish per boat, net and fisherman would diminish. But the law does apply only to river or canal fisheries. The law is not applicable to the case of *sea-fisheries*, as the sea is vast and fish is prolific.

To MINES.

The law does not apply in the same sense as in agriculture. Fertility of agricultural land is *perennial*, while mines become exhausted after a limited period of working. However, *there is this much of resemblance* between the two that just as in the case of agriculture the attempt to raise more produce is attended by an increase in the cost of production so in the case of mines at a later stage with a larger cost less amount of ores is being raised.

To FACTORIES.

If there be any excess or deficiency in the use of any one or more of the factors of production in a manufacturing business and if the organizer fails to readjust them properly in order to attain the best results, then the law of diminishing returns would operate. Otherwise, the law of *increasing* returns would generally operate in manufacture. (Cf. Penson's view, p. 46).

To BUILDING SITES.

The law applies to the case of building sites. By raising a building a number of storeys higher, much economy in cost per storey may be made but the income (rent) derived from the top storeys would fall rapidly due to the many inconveniences that attach to a sky-scraper. At last the height of the building may attain a stage when the return (in the shape of rent) per investment of labour and capital for top storeys would not only seriously diminish but may altogether prove unremunerative.

Extensive and Intensive Cultivation.

In old countries where land has become scarce and population has grown dense, land is being *intensively* cultivated. That is to say, attempts are being made to raise *from each acre of land* as much

crops as possible. On the otherhand, in new countries where abundant quantities of virgin lands are available at almost no rent but labour and capital are scarce and dear, land is being *extensively cultivated*. That is to say, attempts are being made to derive the highest amount of produce per application of each dose of labour and capital as distinguished from each acre of land.

India and Burma are both rice-producing countries and the density of population in the former is several times greater than in the latter. So the systems of cultivation are intensive and extensive respectively in the two countries. In India, in the cultivation of paddy, land is hoed and ploughed, seed beds are prepared, the seedlings are transplanted and several other processes involving expenditure of capital and labour are undergone in order to raise the largest amount of produce from the limited quantity of available land. On the otherhand, in Burma, where labour and capital, particularly the former, are very dear and scarce but land is available in plenty, the cultivator rents for cultivation larger areas of land which he never ploughs or hoes, but raises crops by merely scattering seeds on unploughed lands. That is to say, he tries to obtain the highest amount of paddy per dose of labour and capital.

CHAPTER VI.

LABOUR.

Definition.

Labour is the second but the most important factor of production. It consists of the labour done by human beings to the exclusion of work done by animals.

Jevons has thus defined it:—"Labour is effort, bodily or mental, put forth by human beings, *not exclusively for the sake of the pleasure immediately associated therewith* but partly or wholly, *with a view to the attainment of some ulterior object.*"

Historical growth of the idea of productive labour.

The terms productive and unproductive labour have been understood in different senses during different periods of time. Four different ideas or views have been held at distinct periods:—

(1) **Mercantilist Idea.**—Mercantilism, a school of economic thought which flourished in Europe from the sixteenth to the eighteenth century, held that *only that kind of labour is productive which has been devoted to the production of exportable goods* as exports were expected to bring precious metals from foreign countries. Mercantilism measured the prosperity of a country by the amount of precious metals it accumulated through the course of foreign trade.

(2) **Physiocratic doctrine.**—After the mercantilist theory was exploded, there flourished in France a school of economic thinkers, known as the *Physiocrats*. They held that *only that kind of labour is productive which is devoted to the production of agricultural crops*. They held that agriculture yields a net surplus. An investment of Rs. 10 produces crops worth Rs. 25. In manufacture what we invest, we just reap.

(3) **Adam Smith, J. S. Mill and others** held that wealth consists of material goods. *Labour which does not*

take a material form is unproductive. So they considered the labour of lawyers, physicians, teachers, poets, singers, dancers, etc., which have no material shape as *unproductive*. Services of all kinds, according to them, were considered as unproductive.

But the view taken by Adam Smith, Mill and others is unacceptable. While they held the labour of a musician to be unproductive, in the same breath they declared that the labour of a manufacturer of musical instrument was productive. But such a distinction is wholly untenable. Production implies the creation of utilities. So if a musician renders any utility he is a producer in the same way as a manufacturer of musical instruments. *Labour is productive so long as it yields any utility whether in material or immaterial form.*

(4) **Modern View.** MARSHALL says that only that labour is unproductive which has produced no utility.

PENSON says that "all economic effort is, in intention, productive, because it aims at satisfying wants, and it is only *unproductive* when it fails altogether of its object. What is of real importance to us to-day is—not whether the effort is productive—but *whether it is more or less productive, i.e.,* whether the effort expended results in the production of a large or small amount of wealth. If we want to increase the wealth of a country, we must make our economic effort as productive as possible, that is, we must seek to get the *greatest amount of satisfaction (utility) with the least possible effort.*"

The supply of labour in a country is composed of (a) the total population, (b) the percentage of population which actually works, (c) the number of hours they work, and (d) the efficiency of the labourers.

A. Malthusian Theory of Population.

Towards the latter part of the eighteenth century, the then unenviable economic condition of England and Ireland, led Malthus, a clergyman, to write his famous *Essays on the Principle of Population*. He emphasized in his thesis the fact that the tendency of population is to multiply faster than food supply.

Malthus laid down three propositions:—

(1) Population increases very fast (in a *geometrical* progression, *i.e.*, from 2 to 4, to 8, to 12).

(2) The means of subsistence (including not only food but also fuel, clothing, shelter, etc.) increases comparatively slowly (in an *arithmetical* progression, *i.e.*, from 2 to 4, to 6, to 8, to 10).

(3) So unless the growth of population be checked by *preventive checks* (which may be *moral restraint*, such as postponement of marriage, taking the vow of celibacy, etc., or *vice*, such as, promiscuous intercourse, etc.), *positive checks* like famine, pestilence, disease, war, etc., would overtake the rapidly increasing population and would surely cut it down.*

Criticism of Malthusian doctrine :—

(1) If there be efficient production and equitable distribution of wealth, the growth of population is not to be

* HOW FAR MALTHUSIAN DOCTRINE IS TRUE.

Though Malthus's theory has become somewhat antiquated in form, it is still true in substance. The improvement in transportation which has made it possible for food articles to be imported from America, Canada, Australia, India and other countries to Europe, and the more rapid growth of wealth or economic commodities in comparison with the growth of population, have to some extent kept the Malthusian law in abeyance.

feared. History has shown that inspite of rapid growth of population in Europe, the income per head is increasing.

(2) A larger population may lead to a *better division of labour* and so to a better productiveness in agriculture and industry.

(3) The *socio-economic* argument points out that as the standard of comfort would rise, the size of families would become smaller.

(4) Prof. Pearl in his Biological Theory of the growth of Population (logistic growth) states that for a time population grows rapidly, till it reaches a maximum; the rate then declines till it ceases to grow at all and the total number keeps constant.*

(5) The tendency of human population to grow to the possible limit of its food supply is not true of all nations or of all classes in a nation. Over-population has been the case with India and China because of other reasons.†

OPTIMUM POPULATION.

If over-population is bad, then what should be the "optimum" or the desirable size of population in a country? Optimum number means the number which is most desirable for the most efficient productivity of a nation, a number just sufficient to utilise to the best advantage the material resources of a nation. The object of limiting the number to an optimum is not to produce the largest amount of material wealth at the sacrifice of physical and even moral health of the people but to secure sufficiency and leisure for the population.

Malthusian Theory restated in its modern form.

The theory has thus been re-stated by Prof. Marshall: The growth of population depends *firstly* on "natural

* GHOSH—*Elementary Economics*, p. 70.

† *Ibid.*

increase," that is on the *excess of births over deaths*, and secondly, on **"Migration"**.

Natural increase: *excess of birth-rate over death-rate.*

THE BIRTH-RATE IN A COUNTRY DEPENDS CHIEFLY ON HABITS RELATING TO MARRIAGE.—The age of marriage is early (i) in warm climates where puberty is attained early, and also in countries where (ii) a *low standard of life prevails*. It is a universal experience that *where marriages are early, the number of children born of such marriages is always larger*. The birth-rate is high in warm and poor countries. The birth-rate is also correspondingly large in them. Still there is excess of births over deaths in every country and there is the steady tendency for population to increase. Had not epidemics and endemics overtaken the population in every country now and then, the increase of population would have been surprisingly large everywhere.

Migration.

Emigration and Immigration—Population increases by immigration and decreases by emigration. The former has accounted for a rapid growth of population in the United States and in the new colonies during the last century.

B. The percentage of working population.

The total population in a country may be large, but the supply of labour is to be estimated by the percentage of population who actually does work. In India the working population (*i.e.*, those who are between the ages of 20 and 59 years) comprise 48 per cent of the total population, of whom 23 per cent. are females, a major portion of whom are *pardanashins*.

C. The total working periods of the labourers.

Due to the prevalence of preventible diseases, particularly of malaria, a large percentage of Indian labourers lose at least half of their working hours in course of the year.

D. Efficiency of Labour.

Few labourers to-day work independently. They work in association and co-operation under an employer and their collective efficiency depends on the latter's skill in organization and the quantity of tools and machines he can supply. The labourer's skill is further improved by the introduction of complex or minute division of labour. His personal efficiency, again depends on training, education and his inborn qualities. Social environment in which he is born also counts for much.

Indian labour is accused of being inefficient. The climatic conditions may be mainly instrumental for the defect. But in intelligence he is inferior to none. So by character and intelligence and by adoption to the circumstances (environment) which makes for efficiency, he is to make recompense for his physical failings. A strong determination to do or die is what he requires urgently to-day.

On what depends efficiency of labour?

Prof. Penson says that EFFICIENCY OF LABOUR DEPENDS UPON (1) THE FITNESS OR POWER TO WORK, AND (2) THE WILL TO WORK.

1. Fitness or power to work is of four kinds:—

(a) Physical fitness.

INFLUENCE OF CLIMATE. Physical fitness depends much upon *climate*. A warm climate though not altogether hostile to high intellectual and artistic work, prevents people from making strenuous physical exertions for a prolonged period.

RACE QUALITIES. Physical fitness depends upon *race characteristics*. Some races are physically stronger than others. But this idea of race superiority has been exploded.

STANDARD OF LIVING. Strength also depends upon the *standard of living* of the parents; ill-fed, ill-clothed and ill-housed children never attain physical efficiency.

NECESSITIES OF LIFE. Physical fitness mainly depends on the supply of the *necessaries of life*. Food must not only be sufficient in quantity but superior in quality. Much also depends on the proper preparation of food. There should be different kinds of diet for each separate class of workers. A field labourer must have a different kind of food from that of a teacher. Next to food, comes *clothing, house-room and fuel*. 'When they are deficient, the mind becomes torpid, and ultimately the physical constitution is undermined.'

SPENDING OF INCOME. Moreover, the *earning* of the labourers *must be spent well*. A low rate of wages properly spent is much better than high wages spent over wine and women.

WELFARE WORK. In modern times employers spend large sums of money on *welfare work* for their employees, such as, on sanitary dwellings, swimming baths, libraries, free schools and clubs, play grounds, drill hall, etc. It contributes greatly to physical fitness.

(b) **Technical fitness.**—Training* is necessary for efficiency. Untrained labourers are inefficient. They are necessarily ill-paid and live a low standard of life which ultimately exercises a cumulative or perpetuating effect on future generations.

(c) **Intellectual fitness.**—Technical training alone is not sufficient for the fitness of a modern workingman.

* INDUSTRIAL TRAINING to-day does not mean merely the acquisition of specialized ability. It aims to-day at the development of GENERAL ABILITY. Its acquisition depends (a) *on the better influence of home*, (b) *on education received in schools*, and (c) *on technical education*.

The present aim of technical education is two-fold: (1) It aims at a general command over the use of eyes and fingers, and (2) at the imparting of artistic skill and knowledge.—Marshall.

School education† and education after leaving school, such as through evening class lectures, libraries and clubs, etc., have become absolutely necessary to develop the intelligence of workingmen who under the modern system of production handle very costly and delicate machineries.

(d) **Moral fitness.**—"Habits of self-reliance and self-respect, of honesty and industry, mark the really efficient worker." In modern industry what supervision cannot check, the honesty of labour can alone safeguard.

II. The Will to work.

The will to work depends upon a man's energy, his force of character, the desire and opportunity to succeed, the stimulus of pecuniary gain, and the environment in which a man works,—all of which influence a man to work and to attain efficiency.

CONDITIONS THAT ENCOURAGE THE "WILL TO WORK."

(1) **HOPEFULNESS, FREEDOM AND CHANGE.**—Freedom does not mean only security of person and property, but that higher freedom—the elevation of the ideals of life against custom and convention.

Hopefulness leads to a more direct and certain interest in the product of industry. Slavery was abolished on the ground that freedom and hopefulness highly improve the ability of free labour.

Changefulness of life and work, of associations and of scenery often develop creative energy.

(2) **NEARNESS AND DIRECTNESS OF THE REWARD.**—"Give a man the secure possession of a bleak rock," said Arthur Young, "and he will turn it into a garden." Many of the richest fields of Holland and Belgium illustrate the saying.—"*The magic of property turns sand into gold.*"

How Employers can contribute to efficiency?

The employer can greatly contribute to the efficiency of the labourers. Prof. Marshall suggests that employers by giving proper training to the labourers can increase their efficiency and broaden their outlook of life, which the latter

can never hope to secure for themselves or for their children *for want of means, want of foresight and selfishness*. If all employers improve concurrently the efficiency of their employees then ultimately all the parties, employers and employees individually and collectively, will be benefitted.

Mobility of Labour.

THREE KINDS OF MOBILITY.

Mobility of labour may generally be of three kinds:—

(1) *Mobility from one grade of work to another within the same trade (vertical mobility).*

(2) *Mobility between the different trades.* This mobility is called *trade mobility or horizontal mobility of labour*. Mobility between different trades is very difficult and uncommon.

(3) *Mobility from one place to another (geographical mobility).*

Hindrances to Mobility.

(1) Disinclination to leave home and the association of relatives, and (2) ignorance about the most remunerative markets, both stand in the way of movement of population. (3) The social life of the Hindus militates against factory life and so mobility of labour among Hindu workmen is difficult and slow.

MOBILITY OF LABOUR IN INDIA.

MR. MORELAND says that "*in India at the present time mobility is very largely a question of caste and locality.*" Men of some castes will go from some localities to work almost anywhere in India. Again, an artisan with his tools will move rapidly than a farmer.

Improvement of communication (through railways) and spread of information about best markets for labour, *have increased mobility of labour from one place to another*. But *movement from one trade to another is equally difficult in India as in other countries and more so for the prevalence of the caste system.*

CHAPTER VII.

CAPITAL.

I. Origin of Capital.

Capital is the result of saving.

WALKER says that at every step of its progress, capital follows one law,—*it arises solely out of saving*. Saving implies an idea of self-denial and abstinence.

PROF. GIDE, however, argues that capital being always a product, can only arise like every other product from the two original factors of all production, *viz.*, land and labour. *A purely negative act, the simple abstention from using, can never produce anything.*

Capital originates only when we produce in excess of our present requirements, leaving a surplus. This surplus of production over the necessities of life gives the power to save. And mere saving does not produce or create capital but keep what is produced for future use. When the saving is invested to earn an income, it becomes capital.

*Capital is thus the result of saving of surplus previous labour which has ultimately been invested to produce or yield an income.**

*The primitive man saved a surplus in the shape of surplus food. This allowed him time to make a spear. The surplus was however, only effective when it could be stored for sufficiently long period as a reserve. Wealth to-day assists production both as present stocks and savings. Knowledge and ingenuity help its growth today. So they may be called the immaterial source of capital, as surplus forms its material source.—*Elementary Economics*—Ghosh.

Definition of Capital.

"Wealth devoted to some purpose with the intention of obtaining an income from it is called capital." The whole of a man's wealth is not capital, but it represents only that portion which has been invested to yield an income.

Capital may be broadly defined "as all kinds of produced goods or wealth that are used as means of production. Thus the same thing may be wealth or capital according to its use. Coal, when it is used for cooking food, is *wealth*; but when it is used for an engine, it is *capital*. Economists conceive it as a *produced means of production*."*

Wealth and Capital distinguished.—

The term capital conveys ideas of *productiveness* (i.e., of yielding an income) and *prospectiveness* (i.e., the idea of waiting and saving), while *wealth* suggests the idea of *consumption*, and *pleasures derived from possession*. Capital is one of the agent of production, but wealth is merely a subject of consumption.

CAPITAL IS NOT MONEY. Ordinarily, the capital of a company is expressed as one, or two, or ten, or twenty lacs. But on examination it is found that capital consists of buildings, machinery, raw materials, finished goods, etc., and also a certain amount of ready money. This money also is readily to be turned into goods for production. *So the capital of a business is not money.*"

A Person's Capital.

That part of a man's wealth which has been invested in his own business or in a joint-stock company to obtain an income or a dividend, or loaned to other individuals to earn an interest, or deposited in a bank or in a savings bank to

* Ghosh—*Elementary Economics*, p. 81.

earn a fixed rate of income, however low it might be, is considered as a person's capital. But when a part of a man's wealth, e.g., in furniture, ornaments, buildings, etc., is used as articles of consumption and objects of possession and display, it is no longer considered as capital but as mere wealth. A four-anna bit deposited in a savings bank is capital, but Rs. 500 kept buried in the earth or indefinitely locked up in a chest, or invested in the purchase of a piano, are not capital but wealth.

It is, however, to be remembered that THE SAME THING AT DIFFERENT PERIODS OF TIME MAY BE CALLED WEALTH OR CAPITAL according to the different uses to which it is put. A doctor's motor car which is used for going about in his professional rounds is capital but when it is used for taking pleasure trips by other members of his family, then it is merely wealth.

II. Forms of Capital.

Production and Consumption Capital.

That part of wealth which is set aside for future production is considered as PRODUCTION CAPITAL, while CONSUMPTION CAPITAL is that form of wealth which is in a suitable shape for being directly consumed but nevertheless helps further production, e.g., food supplied to labourers in lieu of money wages. It is wealth from the standpoint of the labourer but capital from the point of view of the employer.

Production capital comprises such things as money or 'fluid capital, tools and machinery, and raw materials of industries (like cotton, wool, coal, iron or timber, etc.), while consumption capital (consumption goods or wealth), includes food, shelter, etc., supplied by capitalists to the labourers in lieu of wages.

Fixed and Circulating Capital.

Capital may be grouped under two heads—FIXED AND CIRCULATING CAPITAL. Capital which exists in a durable shape, renders repeated services, and a return to which is spread over a period of corresponding duration, is called *fixed capital*,* while *circulating capital* is that which can only perform its services once by a single use. The former includes buildings, machinery, etc. The latter includes raw material, cash in hand, etc., each of which is used up in one act of production and requires replacement.

Capital is the result as well as a factor of production.

CAPITAL PLAYS A DOUBLE PART.—AS WEALTH, it is the result of productive effort, as a factor of production it is a *requirement* of productive effort. Capital helps production which results in wealth,—the wealth is either consumed or saved, then the saved wealth is invested and becomes capital which again assists fresh production. Thus it seems that *capital is the starting point and goal of production*.

III. Functions of Capital.

Capital may be said to have *three chief functions*:—

(1) *It makes man's labour on Nature infinitely more productive through the use of plant, machinery, etc.* With the help of machinery we can utilize the forces of nature which other-

Once a Canadian who was visiting a factory in London was thus told with some pride by a foreman about a lathe: "That lathe has been in use for more than a hundred years." The visitor, however, thus promptly replied: "In Canada that would have gone to the scrap heap a long ago. The scrap heap is the most paying part of my business." What he implied was that in these days of hard competition the most up-to-date machinery is alone paying.

wise would have run into waste, *e.g.*, we derive electricity from waterfalls by the help of hydraulic presses.

(2) *It enables us to adopt the roundabout* and very productive and specialized methods of production.*

(3) *It enables us to take risks*—to produce in anticipation of demand instead of waiting for orders, to experiment with new processes, with new materials, and new markets whenever we think there is a chance of gain by taking the risk. *Such are the uses of capital to society.*

IV. Efficiency of Capital.

The efficiency of capital depends upon (1) *its fitness to help production* and (2) *on the method of its application.*

(1) **Fitness of capital depends on its suitability to the purpose in hand.**—A huge building to accommodate a primary school or a C class engine for use in the Calcutta Corporation Railway (Dhapa line) are not examples of economic uses of capital but are instances of sheer misdirection of capital involving great economic waste. In the same way, an attempt to publish newspapers by a hand press in competition with rotary machines, results in waste because the relative cost of production becomes several times greater in the former process. (Read F.N., p. 54).

*CAPITALISTIC PRODUCTION IS ROUNDABOUT.—By *capitalistic production* is meant production which attains its ends, not by the direct and immediate creation of consumable goods, but indirectly through the creation first of tools, machines and other material aids to production and the creation subsequently with the help of these capital goods of the consumable goods desired, such as food, drink, dresses, etc. *Capitalistic production is thus a roundabout process* instead of being a direct one and involves a longer interval of time between its inception and completion. *Capitalistic production is undoubtedly more productive than direct production.*

(2) As regards the method of application of **capital**.—*For the efficiency of capital, it also requires to be handled by skilled labour.* Costly and complex machines would only be most effectively utilized when they are worked by highest paid labour.

V. Growth of Wealth and Capital.

(1) The 'power to save' is the essential condition of the growth of wealth.—We have already noticed that wealth grows out of saving. Saving is, however, only possible when *our income is in excess of our expenditure* and leaves a surplus to be saved—that is to say, *wealth grows on our power of saving.* Without a surplus, the mere will to save is of no avail.

(2) The "will to save" is also a condition of the growth of wealth.—On the other hand, it is also true that without the will to save, a super-abundance of surplus income would not result in any saving. *The 'will to save' strengthens the 'power of saving',* both directly and indirectly.

The *will to save* and the *power to save* rest on two different sets of conditions which for convenience we may classify as *subjective* (mental or internal) and *objective* (material or external) conditions respectively.

I. Subjective conditions: (The will to save).

The growth of wealth is influenced primarily by human psychology or mental conditions. The *will to save* proceeds from a number of considerations which are purely mental. They may be mainly divided into two: (a) habits of saving, and (b) motives of saving.

(a) HABITS OF SAVING.

(i) *Some people can distinctly realize the future than others.* Their foresight induces them to save more than others. Civilized men save more than savages.

(ii) *Some people save much but spend the whole of their saving uneconomically in social festivities. Compare the case of Indians.*

(b) MOTIVES OF SAVING.

(i) *The chief motive to saving is family affection and perhaps the greater portion of saving that has been made in this world has arisen as the result of this motive.*

(ii) *The higher the rate of interest, the greater is the incentive to saving. This seems to be a universal experience.*

(iii) *Desire to attain power may induce a man to save.* But those who want to secure a sudden and swift command over capital seldom agree to depend upon slow and gradual processes of accumulation.

II. Objective conditions: (The power to save).

(1) ECONOMIC RESOURCES.—Unless a man has sufficient *means or resources*, his willingness alone can never enable him to save wealth. A landlord, or a labourer, a capitalist, or a businessman, or an enterprizer, can never manage to save wealth unless his income in the shape of *rent, wages, interest, earnings of management, or profits* be sufficient to leave a surplus over his expenditure.

(2) SOME EXTERNAL CONDITIONS.—In addition to *sources* of accumulation, the external conditions that encourage saving are *security of life and property*, growth of the *use of money*, and opening of the *opportunities for safe investment*.

(i) *Security*: it may be of various kinds, *physical, political, social, religious, legal and economic*.

(iii) *Use of money*.—The introduction of a common medium of exchange in place of *barter* facilitates saving.

(iv) *Opportunities of making investment*.—Banks, Provident Funds, Insurance Companies, Co-operative Credit Societies, etc., help and encourage the growth of wealth.

Prof. Ghosh thus sums the conditions of the growth of capital: "on foresight, prudence, family affection, desire for greater income or power, the number of rich man with higher incomes, the opportunity for investment and mechanical arts of production depends the growth of wealth."

VI. Growth of Capital in India.

India is mainly an agricultural country. Lack of opportunities for investment, absence of strong governments for prolonged periods, spend-thrift habits of the people and social sanctions for uneconomic expenditure, a low and unambitious standard of life prevailing among the people, have all stood in the way of accumulation of capital in the country.

Capital grows very slowly in all agricultural countries.—Much wealth is annually produced in India and consumed as such, and very little of it is turned into capital. A cultivator raises crops, stores it and gradually consumes it in small instalments throughout the whole year. No portion of it is turned into capital, *i.e.*, productively employed.

Is Land Capital*?

It is argued that *land is not capital* for the following reasons:—

(a) *Land is fixed in quantity, while capital is reproducible.*

(b) *Land is indestructible, but capital is perishable.*

(c) *Land is a gift of nature, but capital is a product of labour.*

The consensus of opinion is against putting land and capital in the same category, as the former is not reproducible, while the latter is.

*"Land being the gift of nature, may be regarded as *natural capital*. Indeed some of the American economists headed by J. B. Clarke include land under the category of capital and recognise only two requirements of production, *viz.*, capital and labour. This view has got great scientific value. But most economists prefer to regard land as a separate class: it conforms to tradition and it is also convenient for some purposes. Hence the meaning of material capital should here be restricted only to the man-made means of production and exclude the natural means, *viz.*, land.—Ghosh.

CHAPTER VIII.

Evolution of the Industrial System.

EVOLUTION OF THE MODERN INDUSTRIAL ORGANISATION.—Beginning from the simple division of labour, the *modern industrial organization in the West is a logical process of evolution.*

SIMPLE TO COMPLEX DIVISION OF LABOUR.—At first *division of labour* begins between the sexes, each sex being left with different types of work. Next, it appears in the shape of specialization of occupation, each person adopting a particular industry or profession. Lastly, division of labour appears in the form of *minute sub-division of processes in the workshop*: the production of a single commodity being split up into a number of processes and each process of work being left in charge of a single person. This sub-division of processes leads to tremendous increase in efficiency.

INVENTION OF MACHINERY.—The labourer who repeats the identical processes from day to day finds out that some of the processes are purely mechanical. Gradually, *machines* are invented and mechanical portions of the work are taken over by it.

PRODUCTION ON A LARGE SCALE.—Invention of machinery leads to *production on a large scale.*

LOCALISATION OF INDUSTRIES.—Large-scale production cannot be carried on in any and every region. Some regions provide special opportunities for particular industries and in such centres those particular industries become localized.

RISE OF ENTREPRENEURS.—Production on a huge scale requires the aid of highly specialized management, otherwise there is the risk of considerable wastage of the productive forces.

Such has been the line of evolution of modern industrial organization in the West.

CHAPTER IX.

ORGANISATION

1. Division of Labour.

In primitive societies every man produced what he required for his own use. There was no division of labour or work. With the progress of civilization men learned that it is not economic for the same man to be both a hunter, fisherman, weaver, farmer, boot-maker and so on. Specialisation of occupation, *i.e.*, each man adopting only one of the foregoing occupations, was found to contribute not only to the economy of production but also to the efficiency of the producer.

What is division of labour or Specialisation.

"When two or more persons work together for a common end by doing different tasks or different parts of a task, we give the name **Division of Labour**," for example, when a man spins the yarn and another weaves it. It is also called *combination* or *co-operation* or *association of labour*.*

Division of Work and Division of Labour.

Some writers emphasize the point of distinction between *division of work* and *division of labour*. It is merely a *division of work* when a body of workers raises the cotton in India, another carries it to the mills while still a different batch spins them in the mills to supply the yarn necessary for being woven into cloth.

But it is a case of pure '*division of labour*' when the whole work of all the '*associated members*' of the group is under the same

*HENRY CLAY says that from an individual point of view *division of labour* means '*specialization*' and from the social point of view it means '*co-operation*.'

supervision and management, for example, when within the same factory, one batch works the machine, another feeds it with raw cotton, another spins the yarn, while a fourth weaves the yarn into cloth.

II. Various forms of Division of Labour.

Penson distinguishes between **four forms of division of labour**.

(1) DIVISION OF LABOUR INTO TRADES AND PROFESSIONS.

(3) DIVISION OF LABOUR INTO COMPLETE PROCESSES.

(2) DIVISION OF LABOUR INTO INCOMPLETE PROCESSES.

(4) TERRITORIAL DIVISION OF LABOUR.

The first two forms are cases of *simple* division of labour and the third is a case of *complex* division of labour.

I. Simple Division of Labour.

The primitive form of division of labour was between man and woman. Then came the division of labour into trades and professions.

(1) The Division into trades and professions.—

Even in an early stage of human society, we find different people to adopt different occupations, perhaps according to their opportunities and aptitudes, some becoming farmers, some craftsmen, some priests, some warriors, and so on.

(2) **The division of labour into processes, each complete in itself.**—Under this form, the product of one set of producers is sold to another and utilized by the latter set of producers in production. A group of men spin the yarn and another group weave it into cloth. *In other words, the finished product of the one set provides the materials on which the other works.*

II. Complex Division of Labour.

(3) **The Division of labour into incomplete processes, i.e., through sub-division of processes:**—Under this form the cobbler's or the carpenter's work itself is sub-divided into a number of processes, each cobbler or a carpenter

being left to perform only a fractional portion of the entire work. The classical example of such a division of labour is the pin-making trade.* In a modern pin factory a still further sub-division of processes has increased the average production of pin per head of operative from 5,000 to 15 millions, *i.e.*, 300 times as many as could be produced in Adam Smith's time. John Stuart Mill recorded that watch-making was divided into 102 processes.

III. Territorial Division Labour.

(4) The division of labour into districts or regions suited to particular industries.

This is known as the territorial division of labour or localization of industries. An industry becomes localized at a particular centre because of the special advantages which the particular locality furnishes. Prof. P. C. Ghosh states that the term territorial division of labour is a misnomer. We should better call it *territorial specialisation of industries*.

"For example, in England, the Cotton Industry has become localized in Lancashire, and the Woollen in the West Riding of Yorkshire. In the same way newspaper offices are to be found in Fleet Street and banks in Lombard Street, while doctors congregate in Harley Street and corn-merchants in Mark Lane." Similarly, in Calcutta we meet with European business houses in Clive Street, with paper dealers and merchants in Radha-bazar, and coal offices in Swallow Lane.

*ADAM SMITH wrote:—"A man not educated to the pin-making business, could scarce, perhaps, with his utmost industry, make one pin in a day, and certainly could not make twenty To-day, the business has been divided into *eighteen* distinct operations: I have seen a small manufactory of this kind where ten men only were employed, and some of them performed two or three distinct operations. Those ten persons, however, were found to manufacture among them 48 thousand pins in a day or four thousand and eight hundred a day per head. The efficiency was due, of course, in consequence of a proper division and combination of different operations."

Advantages of Division of Labour.

By division of labour, we understand today complex or minute division of labour in which each worker does only a fractional portion of the work. The advantages are the following:—

(1) IT INCREASES THE SKILL AND DEXTERITY OF THE LABOURER.—“Practice makes perfect.” One who is a Jack of all trades is master of none.

(2) IT MAKES A SAVING OF TIME.—A man who has to do all the processes in making the whole of a thing, has to move from one place to another, from one set of tools to another, and from one kind of raw materials to another. This entails loss of time and energy which would be saved if the labourer has to do only one process.

(3) IT SHORTENS APPRENTICESHIP.—As each workman has to learn only a single trade and within that trade he is to practice only one simple operation, the period of apprenticeship is much shortened.

(4) IT LEADS TO THE INVENTION OF MACHINERIES.—As each process of work becomes more and more subdivided, each of them becomes simple and many of them are found to be merely mechanical. The mechanical nature of some processes leads to the invention of some mechanical contrivance or machinery.

(5) IT LEADS TO THE INCREASED USE OF MACHINERY.—As the productive processes are more and more minutely divided, the scope for employing more machines increases. The fact of dividing the making of a shoe into one hundred and sixty-one different processes has led to the invention of one hundred and sixty-one machines. Division of labour on the one hand leads to the invention of machinery, while on the other hand invention of machinery leads to further division of labour.

(6) IT LEADS TO THE GREAT ECONOMY OF HUMAN LABOUR.—The more minutely sub-divided the processes are, the easier it is to classify the various grades of work and to assign to each labourer the task to which he or she is best fitted. This facility in distributing work among operatives according to capacity has given opportunities for old men, women and children to find work in large numbers in mills and factories.

(7) IT BREAKS DOWN THE BARRIER BETWEEN TRADES.—Minuter sub-division of the processes of work and their identical nature in most trades, makes it possible for labour to move from one trade to another. This mobility also helps employment. Machinery has also succeeded in overcoming the barriers of caste in India. Not only all castes but Hindus, Moslems and Christians are found to work together in a factory.

(8) IT ECONOMISES THE USE OF CAPITAL.—Every working man having to do only one kind of work and that work for full-time, he can keep his machine fully engaged.

PENSON SAYS THAT WE CAN SUM UP THE GENERAL RESULTS OF THE DIVISION OF LABOUR thus:—Greater *productivity of labour*, greater *opportunities* for the use of capital (machinery); greater *diversity* of occupation; greater *need* for the peculiar *skill of the organizer* (in distributing labour according to its fitness); and greater *output* at less cost. *In short, division of labour results in greater efficiency of productive effort.*

Disadvantages of Division of Labour.

We may classify the disadvantages as (1) *direct*, and (2) *indirect*.

1. Direct Disadvantages.

(1) *It degrades the workingman, and leads to the loss of his efficiency.* Where labour is highly specialized, *i.e.*, has to do only a very small portion of the work, the effect of

perpetual concentration of mind on a single operation deadens the mental faculties. This ultimately tells upon the efficiency of labourers.

(2) *The workingman loses all interest.*—A workman who manufactures a complete article, feels great interest in his handiwork when he sees it grow under his hands. But if he has to do only a small process, he naturally loses all interest in his work. *His mind ultimately gets narrow.*

(3) *Monotony of work and life results.*—Monotony of work stupefies the intellect. The workingman loses his alertness of mind and initiative. Monotony of life is much worse than monotony of work. Extreme sub-division of labour which leads to too much specialization may bring monotony of life.

(4) *Extreme helplessness of the workingman.*—The specialization of labour makes an average workingman unsuited to any kind of work other than that to which he has been habituated. So with every change affecting his trade he finds himself helpless and without employment.

(5) *It has a tendency to displace adult male labour by child or women labour.*—The sub-division of processes involves light work and demands little intelligence. So women and children are extensively employed for those processes at a lower rate of wages.

2. Indirect Disadvantages.

Minute division of labour or specialization of skill and machinery has brought with it the factory system, or production on a large scale. *"But the factory system very often means crowded towns and cities, life under unhealthy conditions, absence of personal contact between employer's and employees, etc."* The conflict between labour and capital has mostly grown out of it.

Factory system is not an unmixed evil.—Prof. Marshall, however, does not attribute the degradation of labour to the factory system.

“At all events where there is not excessive noise, and where the hours of labour are not too long, *the social surroundings of factory life stimulate mental activity in and out of working hours; and factory workers have more intelligence and mental resources than has been shown by the English agricultural labourer.*

Factory system is an absolute evil.—Socialist writers, however, strongly condemn the factory system which has arisen as the result of the extension of division of labour.

Introduction of machinery has made machines of men. Capitalists domineer over all the other factors of production, and Karl Marx, the leader of scientific socialists, state that “they are vampires, sucking the blood of labour.” *Extreme division of labour has engendered great social harms.* It has struck at the root of family life by opening employment for women and children in the factories.

Conditions favourable to Division of Labour.

(1) There is *greater scope for division of labour in manufacture than in agriculture.* (2) *Division of labour is limited by the extent of the market.* The larger the market for an article, the greater is the scope for division of labour in that industry. (3) Division of labour is possible only in industries where *there is large employment of labourers.* (4) *The larger the repetitions of identical operations in an industry, the greater is the scope for division of labour.*

Division of Labour without its disadvantages.

If through education there be improvement in the general intelligence and character of the workingman, his mind may not get narrow and his intellect dull. A higher tone in character will protect him from vices and vicious habits. Increased intelligence will result in improved machinery, and machines will relieve him from monotony of work. In addition, if the employer takes a paternal interest in him, his physical, moral and intellectual regeneration will be rapid. (Read, Ghosh—Elementary Economics, Vol. I, p. 97).

III. Labour and Machinery.

We have already noticed that *division of labour leads to the invention of machinery*. On the other hand, *invention of machinery also leads to more extensive division of labour*.

Advantages of machinery.

The advantages of machinery may be studied from two standpoints: (A) *As to how much it contributes to the welfare of labourers*, and (B) *how far it increases the efficiency of production*.

(A) How machinery contributes to the welfare of labour.

(1) *Machinery relieves the strain on human muscles.*—Huge loads are now being moved by pulleys instead of by human muscles.

(2) *It does away with the disgust of many kinds of labour that were formerly very distasteful*, e.g., machines now crush bones into manures which were previously used to be done by manual labour.

(3) *Machinery lessens the monotony of work*, as well as the monotony of life by performing monotonous portions of the work.

(4) *It permits the employment of labourers of average strength and ability* for tasks that formerly required an exceptional degree of one or both (e.g., labourers who are not adults can now find employment in steel foundries).

(5) *Machinery helps the easy movement of labour from one trade to another by weakening the barrier between different trades*. Machineries that are used in different trades today are identical in nature. So it helps movement of labour from one industry to another and solves to a great extent the problem of unemployment.

(6) *The introduction and use of intricate and delicate machinery has helped to elevate the quality of labour.* "The more delicate the machine, the greater is the judgment and carefulness demanded of a labourer. A machineman to-day is more trustworthy, able and highly paid than the labourer under the old system."

(7) *Machines have increased the command of men over nature.* Aeroplanes, telephone and telegraph have enabled us to conquer distances.

(8) *Mass production with machines has cheapened production and has created a greater demand for goods.*

(B) How machinery increases the efficiency of production.

(1) *Machinery performs more work and rapid work.* In a modern pin factory, a single person manufactures 15 million pins a day. In one hour we can print by a rotary press 20,000 newspapers of 16 pages each.*

(2) *Exceedingly great tasks and exceptionally delicate tasks are being accurately done by machines.*

(3) *Machinery can produce 'identical pieces' or 'exact replica' and has thus helped the extensive use of machinery.* Formerly, a machine was one whole and when a part of it was broken, the whole of it had to be scrapped. Now-a-days, machines are made of numerous parts and when a part is broken it can be replaced by an exactly similar part or "identical piece" which alone can be manufactured by machinery. These 'interchangeable parts' again can be secured easily from the nearest agency depot of the

*"At Cawnpur in the North-West Tannery 161 men in all, each at his special machine, working for ten hours a day, produce about 600 pairs of shoes a day. At Allahabad, on the other hand, a shoemaker working singly can finish with difficulty only one pair of shoes in course of a day."—Bhatnagar.

manufacturer. This facility has greatly popularized the use of machinery.

(4) *Machines enable us to utilise the forces of nature*, such as electricity, water power, etc.

Disadvantages of machinery.

Those who condemn the use of machinery argue that it brings *no real gain in comfort to man*.

(1) *It helps to substitute both manual skill and human intelligence*. A machine is expected to do the work of five men, and an adding machine of ten clerks.

(2) *By no means it has added to human happiness*. It has helped no important form of production and has added no food supply and houseroom. But it is not actually so.

(3) *Machines help overproduction*. Large-scale production often makes a wrong anticipation of demand. As a result a larger supply is often produced disproportionate to the demand.

(4) *It can't guarantee constant employment to labour*. If cheaper machine-made goods fails to evoke an extensive increase in demand, the use of machinery may lead to unemployment.

(5) *It destroys the handicraft industries*.

(6) *It kills the artistic and æsthetic side of the national character*.

(7) *Machine production gives rise to degraded and unhealthy factory life* for millions of workmen.

(8) '*Machinery represents a great sin*.'—Mahatma Gandhi condemns the whole factory system with all its attendant degradation, physical, mental and moral, in the above short sentence.

Is machinery injurious to the workers?

Some economists point out that *machinery replaces labour and creates unemployment*. But others vehemently argue that at first some labour may be thrown out of employment but *machinery lowers price*, which in its turn helps larger sales and encourages large-scale production. Lower prices, again, enable men to save wealth. Ultimately the unemployed labour and saved wealth combine as they cannot remain separate for long. So new industries are started. This ultimately creates employment for those who were at first thrown out of work. Further, *the workmen as consumers*, provided they spend substantial portion of their income on machine-made goods, are benefitted by the fall in prices of goods.

CHAPTER X

ORGANISATION (*contd.*)

LOCALISATION OF INDUSTRIES AND EXTERNAL ECONOMIES.

Localisation of industry implies that an area should devote itself to the production of the commodity in which it has comparative facilities of production.

Chief causes and conditions of localisation:—

The causes of localization may be classified as (1) economic, (2) natural or physical, and (3) political and social.

(1) Economic Causes.

1. NEARNESS TO RAW MATERIAL:—*Proximity to raw material* of an industry, *e.g.*, the existence of mines and quarries within easy access by land or water, is an important physical factor which leads to the localization of an industry in a particular area. The Tata Iron and Steel Company is located at Sakchi because the important raw materials of the industry, *viz.*, iron ore, coal, and lime-stone, are found in close proximity.

2. NEARNESS TO POWER.—Industries become localized near places which can command a cheap supply of power, whether of water, steam or electricity.

3. NEARNESS TO MARKETS.—Jute industry has become localized on both banks of the Hooghly due to the facility of transporting finished goods to the Calcutta market.

(2) Physical Conditions.

1. CLIMATIC CONDITIONS.—Climatic conditions sometimes favour the location of an industry at a particular place. The humid *climate* of England is mainly responsible for the success of the cotton industry in that country. The success of Dacca muslin industry may partially be ascribed to the humid climate of the place.

2. FERTILE SOIL AND FAVOURABLE ENVIRONMENT.—Tea grows in Assam and the hills, raw cotton in Bombay and Berar, jute in Bengal wheat in the Punjab, and sugarcane in Behar and U. P. for the peculiarities in the nature of the soils in the respective provinces. Again, a good many engineering industries are found to thrive in the neighbourhood of Calcutta, which is a great industrial town.

(3) Political and Social causes.

1. SETTLEMENT OF RELIGIOUS REFUGEES.—In the past, political and religious persecutions, mainly the latter, have led to the settlement in certain parts of England of colonies of skilled artizans from other countries. For example, the persecution in France of the French Huguenots (adherents to the Protestant faith), who were highly skilled artizans, has led them to take refuge in England permanently. This fact is mainly responsible for the establishment, growth and progress of many important British industries.

2. PATRONAGE OF THE COURT.—Many of the world-famous industries of India owe their inception and growth to the patronage of the local or Imperial Court.

3. PERSISTENCE OF LOCALIZATION.—The fact that an industry has already become localised at a particular centre, is one of the strongest forces which compel that industry to remain localized at that place for a long time to come.

Localisation when and where possible.

It is possible in those industries for which there is a steady and wide demand, and when the goods are portable, artistic and comparatively highly priced. Localization also occurs in such industries in which the raw materials cannot be widely procured and can be procured only in specified local areas; nor the skill required in manufacture can be ordinarily secured. Once a reputation is established such industries defy outside competition.

Advantages of localisation.

Localisation leads to greater specialisation of industries. So the advantages of specialisation are enjoyed by localised industries. The advantages that accrue are:—

(1) *Persistence of the industry increases.*—Once localized, an industry persists to remain there.

(2) *Leads to the growth of specialised markets.*—Manufacturers can locally secure raw materials with ease and can sell their finished products locally.

(3) *Subsidiary and allied trades flourish.*—They grow up in the neighbourhood of big industries.

(4) *Secures steady supply of skilled labour.*—A steady supply of labour naturally flows to areas where it can easily find employment.

(5) *Apprenticeship is shortened.*—The mysteries of the trade become no mysteries and children learn the trade without prolonged apprenticeship.

(6) *Inventions and improvements of specialized machineries take place.*

(7) *The reputation of one commodity facilitates the marketing of another.* Dacca muslins advertise conch-shell bracelets.

Disadvantages of localisation.

Against the advantages there may be set the following disadvantages:—

(1) IT MAY LEAD TO THE DANGER OF WIDESPREAD UNEMPLOYMENT.—A district which depends upon one particular industry *runs the risk of widespread unemployment when depression overtakes that industry.*

(2) OFTEN LEADS TO HIGH INDIVIDUAL WAGES BUT TO LOW FAMILY INCOMES.—*When an industry (say, steel and iron) gives employment to one special kind of labour, e.g., to strong-bodied adult labour, the family income of labourers remains very low as other members of the family except adults cannot find any employment. The remedy lies in the growth of other subsidiary industries in the neighbourhood.*

CHAPTER XI.

ORGANIZATION (*contd.*)

LARGE-SCALE PRODUCTION AND INTERNAL ECONOMIES.

1. Economies of a Large-scale Business.

The advantages of the Large-scale industry may be summed up, according to Penson, in the one phrase—**'Saving of productive effort'**, that is, through the economies of large-scale production **a given result can be obtained with less effort**—or in other words, **at less cost.**

Heads of Expenses in Large Business.*

The heads of *expenses of a large business or factory* may be roughly classified under three heads on which savings or economies may be effected so as to lower the cost of production.

They are:—(1) PREPARATORY EXPENSES, which include expenses that have been incurred for securing *raw material, fuel, machines and tools*, and also the *transport of raw materials*.

(2) MANUFACTURING EXPENSES, which include the expenses that have been incurred *in the engine room, in the workshops, in the packing departments, in the office, and in the removal of waste.*

(3) DISTRIBUTING EXPENSES, which include the *expenditure* that have been incurred *on transport, on agents and travellers and on advertising.*

A large-scale producer derives considerable economies on those heads.

*Penson—Economics of Everyday Life.

II. Large-scale vs. Small-scale Production.

Neither large-scale nor small-scale business is by itself more or less economic. Each has its strong and weak points. We propose to summarise here their respective advantages and disadvantages.

Advantages of large-scale production.

(1) *Economy in buying and selling wholesale.*—A large business can purchase its raw materials cheaply than its rival—the small producer. It can also sell the finished products advantageously.

(2) *Economy of machinery.*—A large business need not employ too much capital on machines in proportion to its size. Thus it makes great economies of fuel, space and capital. It is to use powerful and up-to-date machines the value as well as the maintenance of which would not be proportionately large. Moreover, they may be kept in continuous operation.

(3) *Economy of capital.*—The capital required in large business need not be proportionately large.

(4) *Economy of organization.*—A large business can keep employed every grade of labour in its proper place. In marketing of goods, it is also at an advantage. It can have its own transport arrangements, etc.

(5) *Economy of the use of waste materials and by-products.*—Formerly, the husks in a rice mill had to be removed and destroyed involving some costs to the millowner. But to-day the boilers and engines in rice mills have been so constructed that the husks need never be destroyed, but can be utilized as fuel. Again, in a *packing house* to-day every particle of a cattle, from drops of blood to the grease on the skins and marrow in the bones, slaughtered for meat is being conserved and utilized.

(6) *Economy of experiment.*—A large business can afford to employ its own chemists and engineers to make experiments with a view to economize the cost of production, which is beyond the capacity of small producers to undertake.

(7) *Economy of advertising.*—A large producer can employ *agents and commercial travellers* to push his goods on the market and his cost on that head per unit of product is much less than that of small producers. He can also afford to undertake costly advertisements to attract customers.

Advantages of small-scale production.

(1) *The master's eye is everywhere.*—The small producer supervises his own business. So there is very little opportunity by employees to shirk work.

(2) *The producer can give personal attention to customers.*—Small producers can give close and personal attention to the requirements of their customers.

(3) *Artistic industries requiring great skill can best be carried on a small scale.*—The small-scale producer is at an advantage where the industry is artistic and requires the rare skill of a master craftsman, *e.g.*, in ivory-carving, shawl and carpet-making, etc.

(4) *Some industries cannot be carried except on a small scale.*

(5) *"Technical reasons sometimes prevent production on a large scale. Small shopkeepers are common in many of the repairing business."*

The advantages of small-scale producers have increased to-day, specially due to two reasons, (1) the invention of small machines driven by motor, crude oil or electricity which supply motive power at a cheaper rate than bigger machines; and (2) the organization of co-operative credit societies. The former has neutralized the advantages of

cheap motive power derived by large-scale producers and the latter has facilitated the supply of *adequate and cheap capital* to the small-scale producers. Through *co-operation* small-scale producers can also secure the advantages of wholesale purchase of raw materials and the sale of finished products at the most advantageous markets.

Disadvantages of large-scale production.

(1) *Difficulty of management increases with expansion of size**

(2) *Tendency to routine.*—Big concerns cannot adapt themselves promptly to changes of fashion and new lines of production. "They die of routine."

(3) *The factory system has killed the independence of the labourer* and has made him a slave of the capitalist employer.

(4) *It leads to the growth of overcrowded towns* which is detrimental to the growth of health, strength and morals of the working population

(5) *The employer feels no personal touch of his* employees and his sole aim is directed to earn profits.

(6) *There is little scope for making things of real artistic value*, as the large-scale producer merely produces standard goods of uniform quality in large quantities.

Conditions favourable to large-scale production.

—Increasing (minuter) division of labour: invention and employment of specialized machinery: extension of the market: and creation of new economies in the methods of production are the conditions favourable to large-scale production.

* "In industrial enterprize there are many men who can manage a thousand dollars, few who can manage a million, and almost next to none who can manage fifty millions."

III. Limitations upon large-scale production.*

Penson speaks of the following three kinds of limitations on large scale production:—

First Limitation.—(a) 'CERTAIN TYPES OF BUSINESS ARE MORE SUCCESSFUL ON SMALL-SCALE THAN ON A LARGE.'

(b) *The personal skill of the worker is the conspicuous factor in some crafts*, the introduction of extensive division of labour and the use of machinery having no scope, e.g., in the shawl-making trade of Kashmir and the muslin manufacture of Dacca.

(c) *Personal attention of the employer to every detail in some industries may be essential for success*, e.g., in manufacture of jewellerys, etc.

Second Limitation. —LARGE-SCALE BUSINESS CANNOT BE ALWAYS PUSHED FURTHER DUE TO THE OPERATION OF THE LAW OF DIMINISHING RETURNS.

We have already seen (pp. 34—40) how the law of diminishing returns operates specially in agriculture. In manufacture, on the other hand, the *Law of Increasing Returns* seems generally to follow.

In manufacture, the law of Diminishing Returns would have operated if the supply of any one of the three factors were limited or fixed in quantity. But it not being so, *the law of increasing returns operates in manufacture*.

Penson says that *increasing returns* may follow both in agriculture and manufacture, if the business organizer can control and alter at will the relative amounts of the factors of production so as to produce the best results. Where this control is limited, an increase in the size of production is followed by the law of *diminishing returns*. In manufacture, though the factors may be varied, an injudicious

* Penson—Economics of Everyday Life.

application of the factors of production would bring about the operation of the law of diminishing returns.

Third Limitation.—LARGE-SCALE PRODUCTION IS LIMITED BY THE EXTENT OF THE MARKET.

Unless the demand for a thing is universal and the market for it is extensive, the article cannot be profitably produced on a large-scale. During the Durga Pujahs in Bengal hand-made wax candles are generally burned before the Goddess. They are manufactured by cottage producers. The total demand for such candles does not exceed, say 5,000 in all. As there is not enough competition in the trade, the price charged per candle runs somewhat high. Now, if this high rate of profit per candle induces a capitalist to start the industry on a large scale and to manufacture wax candles in millions, he would certainly in no time find that his candles can never secure a wide market and had to be ultimately disposed of at prices much below the cost of production.

Future of large-scale production.

In manufacture small-scale industries are expected to hold their own by adopting proper measures, such as through the *co-operative supply* of cheap capital, raw materials, etc., through the *invention and supply* of small and cheap *machines* worked by steam, electricity or crude oil, and through the personal interest and initiative of the small producers. But large-scale production in manufacture will spread widely subject to the limitations already enumerated.

CHAPTER XII.

ORGANIZATION (*contd.*)

I. The Organizer.

The Business Organiser: his importance.

"It is the function of the organizer to correlate the various factors, to set them in motion, to get them to work harmoniously to the best advantage, and to remunerate them satisfactorily." Success depends on organization and the entrepreneur holds the steering wheel. Misdirection of the factors of production brings disaster and widespread misery and hardship.

The *Organizer* is variously termed as *Entrepreneur* (from the French, *entreprendre*—to undertake), *Unternehmer* (German), *Captain of Industry*, *Business Manager*, and sometimes by mistake *Enterpriser*. In modern industrial life he is a necessity.

Functions of an Entrepreneur.

(1) **THE ASSUMPTION OF RISK.**—As in most business to-day production is carried in anticipation of demand, so there is much risk to be faced. Penson points out that in modern times the organizer seldom contributes a substantial portion of the capital, so the risk involved is borne by a fifth factor, *enterpriser*, and not by the organizer. The organizer today is a salaried man having no risk for capital employed in the industry.

(2) **ADMINISTRATIVE FUNCTIONS.**—(a) *He decides on the nature and quantity of the product which can readily find a market.* (b) *He brings together land, labour and*

capital at the right time and in the right proportion. (c) *He arranges for the marketing and sale of the product* through employment of sales managers and commercial travellers, through agency organizations, etc.

(3) **DISTRIBUTIVE FUNCTIONS.**—He arranges to distribute the reward or remuneration to each of the factors of production: rent to the landlord, interest to the capitalist, wages to the labourers, and finally, profits to the risk-taker and earnings of management (wages) to himself.

The Enterpriser and the Entrepreneur.

In modern times, by accident they may be identical persons but scientifically speaking they perform quite different functions. The enterpriser is the undertaker of risk in modern business and is called the fifth factor in production. Modern business is mostly joint stock concerns and the enterpriser as shareholder advances capital and gets his remuneration known as profits.. In case of losses, he bears it. In case of profits, he pockets it. On the other-hand, the Organizer or the Captain of Industry is usually the paid manager who gets his remuneration known as wages *or earnings of management* for work of supervision, direction and management.*

When production was small-scale, the entrepreneur combined in himself two functions—he supplied capital as well as management. For example, Butto Kristo Pal both managed and supplied capital to his business. But later on when the business became too large, salaried manager had to be appointed to look after management while the risk of the business devolved upon the heirs of Butto Kristo. So in

*Entrepreneurs fall under two classes, industrialists proper and merchants or middlemen. There is a third class besides, the speculators. To these again may be added a fourth, Mahajans and bankers.—Ghosh, *Elementary Economics*, pp. 110-112.

modern times we find the functions of the entrepreneur to have been bifurcated into two—the organiser and the enterpriser.

Functions of an ideal Entrepreneur.

We have already discussed the ordinary functions of an entrepreneur. PROF. MARSHAL *thus enumerates the 'faculties that must be possessed by an ideal entrepreneur' :—*

(1) *As an organizer of production, he must have a thorough knowledge of things in his own trade.*

"He must have the power of *forecasting* the broad movements of production and consumption, of seeing where there is an opportunity for supplying a new commodity that will meet a real want or improving the plan of producing an old commodity. He must be able to *judge cautiously* and *undertake risks boldly*; and he must of course understand the materials and machinery used in his trade."

(2) *He must be a natural leader of men.*

"He must have the power of first *choosing his assistants rightly* and then *trusting them fully*; of *interesting them* in the business and of *getting them to trust him*, so as to bring out whatever enterprise and power of origination there is in them. while he himself exercises a general control over everything, and preserves order and unity in the main plan of the business."

Here we find Prof. Marshall not to include in the function of an entrepreneur the function of risk-taking. But the term still as yet seems to remain associated with the double ideas of management and risk-taking.

Entrepreneur's limitation: Human infirmities.

"The successful co-ordination of a vast variety of interests and their employment in such a manner as to achieve results satisfactory to all, is necessarily a task of magnitude and intricacy within the capacity of the very few. Only one man in a thousand has the ability, spirit and power to direct an army of men through a maze of

difficulties. One of the world's greatest entrepreneurs was the late Mr. Carnegie and even in his case it was clearly found that he suffered from limitations on his abilities when the size of his business exceeded a certain limit."

II. Evolution of Business Management or Organization of Capital.

Business management has developed through a process of evolution. From the simplest form of management with the smallest command of capital, we have passed on to more complex form of management.

1. The Single Entrepreneur system.

In the earliest and simplest form of business *the single entrepreneur controlled* the whole enterprise. He supplied land, labour as well as capital and not only organized and managed every detail of the business but undertook all risks. The weakness of present-day private firms organizing on the single entrepreneur system, lies in the fact that their proprietors can supply capital but very little ability.

2. The Private Partnership.

As the size of the business began to expand more capital and more partners were found necessary to organize the business. The partners supplied among themselves the capital required for the enterprise and divided among themselves the responsibilities of management, *e.g.*, some looked after wholesale transactions and some after retail portions of the business. *The liability of parties was, however, unlimited.* Unlimited liability means the liability of a partner extending over the whole of the liabilities of the concern irrespective of his share in the business. This bogey of unlimited liability discouraged capitalists and well-to-do persons to join business.

3. Joint-Stock Companies.

As the size of the business began still more to expand and the demand for larger investment of capital became more and more pressing, partnership system was substituted by the joint-stock system.* Under the latter system the business world was relieved of a great handicap—the inconveniences of the *unlimited liability* system. Limited liability means that a shareholder's liability under the joint-stock company system runs up only to the full value of the share subscribed by him. If the full value of the share has already been paid no liability attaches to him. If a portion still remains due, the liability runs only up to that amount.†

*“The system has grown popular for several reasons:— (1) It offers an opportunity for savers of wealth to obtain an income without undertaking the risk of investment; (2) the system offers a variety of choices as to the way in which a person can hold his capital to suit his individual taste or personal requirement.”—Ghosh, *Elementary Economics*.

†A JOINT-STOCK COMPANY is organized when a number of shareholders subscribe some capital between themselves and elect a Board of Directors to carry on a business. The directors are to submit an account of the progress of the Company at the shareholders' meeting six-monthly or annually, as the case may be.

Annually in a general meeting the directors are appointed or reappointed by a majority of votes of the shareholders. In all limited companies, the liability of a shareholder runs only up to the value of the share subscribed by him. If he has already paid off the full value, his liability thereby terminates. If some portion remains still due, the liability only runs up to that amount.

The capital of a joint-stock company may be classified either as (a) authorized capital, (b) subscribed capital, or (c) paid-up capital. *Authorized capital* refers to the capital which the company is authorized under its constitution to raise, *subscribed capital* refers to the number of shares that have been actually subscribed, and *paid-up capital* refers to the actual amount of money that

But the joint-stock business is criticized as being a capitalistic system of production—the interest of *labour* being completely sacrificed to that of *capital*. The system of business also allows great scope for the practice of dishonesty by the managers, as the ultimate and real risk-takers *i.e.*, the shareholders, have little direct control over the business. The latter can meet only once in six months or in a year and can elect the Board of Directors and can register their views only about the general policy to be followed by the company.

4. Co-operative Business.

To do away with the evils of the capitalistic system of production and to remove the opportunities for the practice of dishonesty by the managers, *the co-operative system of production has been advocated*. In an ideal form of co-operative business both the *employers, employees and risk-takers (capitalists)* are to be the same persons. The labourers themselves are to supply the capital as well as the management. But co-operative business (in manufacturing) has

has been paid to the company by the subscribers of shares. The shares again are divided as *preference shares* and *ordinary shares*. The ordinary shareholders undertake the risk of the business and the dividend depend upon the net profits of the business. They are proprietors of the company. The holders of preference shares are to get the dividend, usually at a fixed rate, before any dividend is paid upon ordinary shares. Preference shares are either *cumulative* or *non-cumulative*. In case of the former, the owner is entitled after years of dividends when such arise in subsequent years. A business company in addition to capital which they raise from Unlimited holders, often raises capital by borrowing from outsiders over the period in the form of *bonds* (debentures, etc.) on his share. It is paid at a fixed rate. Debenture holders are creditors of the company. Joint-stock companies also borrow from industrial and other banks by mortgaging their assets. discouraging business.

seldom proved successful due to the petty jealousies among the employees, the comparative inefficiency of the managers, the want of capital, and the want of discipline among the rank and file.

5. Government or Municipal Undertakings.

Governments in many countries have begun to manage businesses which were formerly in private hands, such as banks, insurance companies, railways, irrigation works, etc. But some hold the opinion that in government undertakings, where the promotion of business managers depends upon seniority, proper business efficiency which makes for success cannot be secured.

"Government or municipal enterprises aim at the consumer's and not the capitalist's profit. The efficiency of management depends in these cases on the spirit of public service." But when they are not worked efficiently, they are less useful than capitalistic concerns.

CHAPTER XIII.

THE LAWS OF RETURNS.

There are three laws relating to the *productivity of industrial effort*—the Laws of Diminishing, Increasing and Constant Returns.

1. The Law of Diminishing Returns.

Prof. Marshall thus defines the law of Diminishing Returns. "With an increased application of capital and labour, *other things being equal*, nature affords in the long run a *diminishing return* of raw produce."

Penson states that had it been possible for man to increase the supply of land with every increase in demand for agricultural produce then there would not have been any operation of the law. In extractive industries, *e.g.*, in mining and agriculture, the scope for specialisation and organisation being restricted, increased production is attended by increasing costs.

2. The Law of Increasing Returns.

PROF. MARSHALL THUS STATES THE LAW OF INCREASING RETURNS.—"*An increase of capital and labour leads generally to an improved organization which increases the efficiency of the work of capital and labour.*"*

The Law of Increasing Returns is an exact analogue to the Law of Diminishing Returns. Suppose, in agriculture, the investment of

*Causes of Increasing Returns:—(1) When a firm works at its fullest capacity, its standing charges, *e.g.*, the salaries of managers, office establishment, advertisement cost, etc., per unit falls; (2) when more men and machines are employed, each being put to a narrower range of area, their efficiency increases: (3) big firms can afford to use the latest inventions and the newest discoveries.—Ghosh, *Elementary Economics*.

Rs. 500 in labour and capital on a particular plot of land yields 2000 bushels of wheat. An additional investment of Rs. 500, however, instead of yielding a total of 4000 bushels, produces only 3500 bushels. That is to say, the second dose yields only 1500 bushels while the first did yield 2000. *This is a case of Diminishing Returns.*

On the other hand, in manufacture, suppose we invest a lakh of rupees in a shoe factory and the yield per week is 10,000 pairs of shoes. If the factory is reorganized with an additional capital of rupees one lakh, then the return of product in shoes is found to be 25,000 pairs instead of 20,000. That is to say, the investment of a second lakh of rupees in the shape of additional labour and capital increases the productivity so much so that it helps to produce 15,000 pairs of shoes in place of 10,000 pairs. *This is a case of Increasing Returns.*

PROF. CHAPMAN says that "as the industry gets bigger more specialization and more machinery per head tend to be introduced into it and its subsidiary industries, and the means of transportation connected with the industry tends to get more economical. Also the commercial work, *e.g.*, advertising etc., interlaced with the industry tends to get more economical. *Consequently, increasing returns tend to follow.*"

3. The Law of Constant Returns.

If the Laws of Increasing and Diminishing Returns are balanced, we have the Law of Constant Returns, *i.e.*, a proportionate increase in product is obtained by the application of additional doses of labour and capital.

In what industries does Constant Returns operate?

The law operates in industries where the scope for extensive economies is limited. For example, in flour and blanket industries, in which the cost of raw material (*e.g.*, of wheat or wool), accounts for *almost* the entire price of the finished products (*e.g.*, of flour and blankets), the scope for securing economies is naturally limited within a very narrow range. So whether production of such goods is on a small or on a large scale, the cost per unit does vary little.

Suppose, the price of a piece of blanket is Rs. 20 and the value of raw wool used in its manufacture is Rs. 17. So there remains only Rs. 3 which account for the cost of manufacture and of profits. In case blankets are produced on a large scale, then all economies which might follow as a result must be within the narrow range of Rs. 3. So it is said that in such industries whether production is carried on a large or on a small scale the cost of production per unit remains the same.

HOW THE LAW OPERATES.—Suppose a man has an electric flour mill in a Calcutta street corner. His total investment is Rs. 2,000. His daily manufacture is 20 mds. of flour. Suppose the man gets command over Rs. 2 lakhs (100 times his original capital) and invests the whole sum to start a big flour mill. Other things remaining the same, the total yield of flour per day is found to be just about 2000 mds. (*i.e.*, hundred times the original yield). It so happens because the cost of production cannot be substantially lowered as in other industries, through the economies of large-scale production because the negligible difference between the price of wheat, the main raw material, and the flour, the finished product, makes any substantial economy impossible.

CHAPTER XIV.

HISTORY OF PRODUCTIVE EFFORT.

HISTORY OF PRODUCTIVE EFFORT.

In Book I, Chap. II we have traced how from the simple economic life of the primitive man we have progressed to the complex economic life of to-day. In the present chapter, on the other hand, we propose to trace man's development through the *various stages of productive effort*—from the primitive stage of direct appropriation, to the pastoral, agricultural, handicraft and industrial stages.

CRITERIAN OF PROGRESS.—The criterion of progress in the early stages of productive effort seems to be the growth of CONTROL OF MAN OVER NATURE AND A GREATER ECONOMICIZATION OF LAND. At a later stage, *e.g.*, in handicraft stage, the importance of land diminishes, and mechanical power directed by human skill dominates the field of production. At this stage the command of man over nature and natural forces becomes complete.

Stages of Economic Development.

1. **DIRECT APPROPRIATION.**—*In the stage of direct appropriation, man remains contented with what nature gives.* He lives by hunting, fishing, and by producing fruits and vegetables, which bountiful nature yields spontaneously (without cultivation).

2. **PASTORAL STAGE.**—*In the next stage, i.e., the pastoral stage, man acts upon nature and gains a partial control over it.* Domestication of animals begins. "A country that could support one savage hunter for each fifty square miles, might support ten pastoral people."

3. **AGRICULTURAL STAGE.**—*In the agricultural stage there is an enormous increase in man's power over nature. Cultivated land produces 2000 times more food than what the same land produces in the hunting stage.* Private property grows slowly. Self-sufficient village communities gradually grow up.

4. Handicraft stage.

The *handicraft stage* ushers in a further step in the growth of civilisation and records a rapid increase of population. Land alone

cannot support population. Hand labour becomes an important factor in production. Commerce, transportation, use of money and extended division of labour become prominent features of social and economic life. Cities grow up, political freedom spreads and economic legislation is enacted.

This period which has begun at the latter part of the Middle Ages and extended to the period of power manufacture in the second half of the nineteenth century, may be divided into two stages:—

(i) PERIOD OF LOCAL REGULATIONS IN TOWNS.—As trade begins to flourish, merchants in each town in order to retain their monopoly of trade undertake to form '*Merchant Gilds*' or Associations of their own and regulate the conduct of trade. Their unity helps them to dictate price, etc., to the producers. But the Nemesis soon overakes them. The craftsmen or producers of goods in the different trades soon take their cue from the organisation of the Merchant Gilds, and form gilds of their own, known as worker's gild or *craft gild*. Each craft or trade has its separate gild, which specifies in detail how the business should be carried on, the number of members that should be admitted to it and how the trade should be learned and conducted. IN TIME THE CRAFT GILDS COMPLETELY SUPERCEDES THE MERCHAHT GILDS.

PENSON says that the gilds adopted a two-fold policy:—

(a) None but members of the gild were allowed to engage in trade, and the gild regulated how the goods were to be made and under what conditions they were to be sold.

(b) The outsider was jealously excluded. If he wished to sell in the market of a particular town he had to pay special tolls.

DOMESTIC SYSTEM OF PRODUCTION.

But with the development of communications and extension of the markets, standardized production on a very large scale became necessary. The Craft Guilds had no opportunity to know about such foreign markets, nor they were able to meet such extensive demand. So there arose next a new system of production known as the *domestic system*. Under the system, the Craftsman did no longer produce on his own account and sold his products to the customers directly but only "received the raw materials from a middleman (merchant), to whom he also delivered his product." *This system led to the first step in the loss of independence of the Craftsman.*

(b) PERIOD OF NATIONAL REGULATION.—Between the handicraft and the modern industrial stage there elapsed a number of centuries during which the *national governments of various European countries in order to develop their trade and manufactures adopted a number of trade regulations through the instrumentality of their respective governments...* This period is known generally as the period of National Regulation. Under state regulations there developed a system, known as the *Mercantile system*. Its essential idea was to increase the wealth and resources of a nation by developing in every possible way (through Regulations) an export trade. (Read p. 48).

5. The English Industrial Revolution.

Little by little the capitalist class began to appear. With the discoveries of new countries, markets expanded. Production must be carried on a large-scale. Raw materials in larger quantities began to be imported. Craftsmen had very little capital to purchase it. So they had to requisition the services of the capitalist.

CRAFTSMEN LOST THEIR INDEPENDENCE.—Very soon the capitalists employed the craftsmen to work the raw materials for them. Gradually, they acquired control over the industries and the craftsmen were gradually made to work on the capitalists' premises using the latter's tools and machinery and receiving a money wage for the services rendered.

CAPITALISTIC FORM OF PRODUCTION BROAD-BASED.—By the second half of the eighteenth century, the capitalistic form of production became more and more prominent. So complete was the change effected in the course of a short space of time that the movement came to be known as the *Industrial Revolution*.* The period extends from 1760 to 1840. It swept away century old methods which had proved inefficient.

AGRARIAN REVOLUTION.

In agriculture, the system of *open field* was inimical to progress. *Enclosure system* was found to be a sovereign remedy. As a result crops were heavier and larger in variety. But small farmers were greatly handicapped as they had very little capital and efficiency to

* By the 'Industrial Revolution' is meant the changes which were brought about by a number of mechanical and other inventions, and by the application of steam-power to production and transportation.

adopt the new, improved and scientific system of cultivation. To add to their cup of sorrows, the factory system destroyed the second string to their bow,—the handicrafts, and the French wars brought high prices and heavy taxation. As a result the yeomen (small farmers) had to sell out their land to capitalist farmers. *Large farming thus replaced small agriculture.*

Like the yeomen, the agricultural labourer suffered from the enclosure system. So he left for the town where there was demand for labour in the industries. Gradually, the population of England became mainly urban and manufacturing, instead of being rural and agricultural.

5. THE MODERN INDUSTRIAL STAGE.—The distinguishing features of this stage consist of:—(a) the introduction of power and machinery in production; (b) the organisation of industry on a large-scale under the direction of capitalist employers; and (c) the growth of *economic freedom*.

REVOLUTION IN TRANSPORTATION.—In 1801, the charter was granted for tramways being used for general purposes rather than being limited as before to the transportation of coal only. In 1814, Stephenson completed a locomotive which could draw thirty tons at the rate of three miles per hour. The first steam railway was opened in 1823 which lowered the cost of transportation immensely.

THE PROBLEMS OF EXCHANGE

CHAPTER XV.

EXCHANGE.

I. The Necessity for Exchange.

In the primitive stage of society there was no *need for exchange*, everybody produced what he required for his own consumption. But when division of labour was introduced, *some sort of exchange to procure one's necessities of life became imperative.*

Originally, exchanges were made by means of *barter, i.e.*, through the direct exchange of one's goods with the goods of others. But as the barter system had many disadvantages, some common medium was evolved. This we term *money*.

In dealing with the problem of exchange in the following chapters, we would first deal with the **PRINCIPLE** which underlies all exchange (*i.e. with the problem of value*), and then with the **MEANS OR MACHINERY** by which exchanges are effected (*i.e. with money*).

II. Barter and its Inconveniences.

Inconveniences of Barter.

PROF. JEVONS has pointed out the following inconveniences of barter:—

1. *Want of coincidence.*
2. *Want of a measure of value.*
3. *Want of a means of sub-division.*
4. *Want of a store of value.*

1. **WANT OF COINCIDENCE IN BARTER.**—The system of barter involves that not merely 'A' the producer of corn, who is in need of cloth, must find 'B' a producer of cloth,

but he must find such a producer of cloth who is also in need of corn. This is known as double coincidence of barter.

2. WANT OF A MEASURE OF VALUE.—In a state of barter, the rate of exchange would naturally depend *on the intensity of wants* of parties on each particular occasion of barter. On a rainy day one maund of corn would exchange for two pieces of cloth, while on days of festivities only one piece of cloth would exchange for a maund of corn.

Moreover, in the absence of a common medium of exchange like money, the value of different articles are to be expressed in terms of other goods. In a market where there are hundred articles to be exchanged there would arise at least 4950 possible ratios of exchange.*

3. WANT OF A MEANS OF SUB-DIVISION.—For example, if one umbrella exchanges for two pairs of shoes, then how would an umbrella-maker make his offer to a shoe-maker when he wants only one pair of shoes. Half an umbrella can have no utility for the shoe-maker.

4. WANT OF A STORE OF VALUE.—In modern times we sell our stock of perishable goods and store the value in terms of money. But in the days of barter, people who produced perishable goods could not store them usefully for long. For this reason the production of perishable wealth in the days of barter suffered much.

On account of the inconveniences arising out of barter, a common medium of exchange was introduced very early.

* These ratios, again, are variable and do not express corresponding exchange values. For example, if one seer of ghee exchanges for ten seers of rice, and one seer of rice for five seers of brinjals, one seer of ghee would not exchange in barter directly for 50 seers of brinjals. It would exchange, say, for 45 or 55 seers of brinjals for the reason that one man's intensity of desire for any commodity is different for different men.—Ghosh.

CHAPTER XVI.

THE PRINCIPLE OF EXCHANGE.

I. Economic Markets.

Exchange (*i.e.*, sale and purchase) takes place in markets. The economist's *idea of a market*, however, differs fundamentally from the popular conception of the term. An 'economic market' does not mean a particular market-place or *bazar* where commodities are exposed for sale.

Economic Market means the *whole of any region* within which a body of persons (buyers and sellers) are in *intimate and competitive* business relations (*i.e.*, are in free intercourse with one another), and carry on extensive transactions in *any one* commodity.

Economic markets refer not to a place but to a commodity:— There are in a great city as many economic markets as there are economic commodities, and the price of an article in an economic market *tends to equality in all parts of it at the same time* easily and quickly.

So we may speak of the Calcutta tea market, cotton market, wheat market, rice market, sugar market, iron market and so on. These markets do not refer to any particular market-place, such as the Hogg market, New market, or College street market.

II. Local and wide Markets.

Local Markets.

There are certain articles of consumption which must be locally produced and supplied. They constitute *local* markets.

LOCAL MARKETS DEAL GENERALLY WITH TWO KINDS OF GOODS:—(a) *Goods which are perishable and bulky*, for example, fresh vegetables, small fishes, ordinary bricks, etc.

(b) *Goods made to order*. For example, well-fitting clothes, etc., cannot but be locally produced.

But it is to be remembered that even such local markets are not without any influence from the 'central' market.

Wide markets.

The modern tendency is towards the extension of the size of a market. The improvement in the means of communications, *e.g.*, by railways, telegraphs, steamships etc., have made economic markets for many commodities co-extensive with the world. The markets for tea, cotton, sugar, precious metals, etc., to-day extend to the whole world.

Conditions of a wide market.

In order that a commodity should have a very wide market, it must possess the following characteristics:—

(1) IT MUST BE IN UNIVERSAL DEMAND.—Wheat, cotton, sugar, gold, silver, etc., come within this category.

(2) IT MUST BE PORTABLE.—It *must possess great value in small bulk unlike* the ordinary bricks, and unlike fish and fresh vegetables *must not be perishable and must be such as to bear a long carriage.*

(3) IT MUST BE SUITABLE FOR GRADING.—Articles that can be *graded according to quality* by independent authorities (like the Board of Trade), and which distant customers can safely purchase by telegraphic advices by *referring to grades (qualities) only*, for such commodities markets expand very quickly. American wheat and cotton, Indian tea and jute, Brazilian coffe, Java sugar and so on, are graded to-day for the facility of trade.

Articles of international market (exchange).

Commodities which satisfy the above conditions are generally articles of international exchange. They comprise such things as stock exchange securities (*viz.*, shares of large companies, government bonds and securities), precious metals like gold and silver, wheat, cotton, sugar, etc.

III. Value and Price.

'Value in use' and 'value in exchange'.

The term value, as is pointed out by Adam Smith, may be used in two senses. It may mean *value in use*, *i.e.*, the power to satisfy a human want, or it may mean *value in exchange*, *i.e.*, the power to procure something else in exchange.

The first may be called *individual value* and the second *social value*. The economists are concerned with the term value in the second sense.

To have 'value in exchange,' a thing must possess 'value in use,' *i.e.*, utility. But 'value in use' *i.e.*, the utility of a thing, does not determine the 'value in exchange.' Air and water, which are absolute necessities of human life, have considerable 'value in use' or utility, but in comparison with gold and silver, which are not in the least essential to human existence, they have almost no* 'value in exchange' except under special circumstances.

Value and Price.

WALKER defines *value* as the '*power in exchange*', *i.e.*, the power which an article confers upon its possessor, irrespective of legal authority or personal sentiments, of

* ADAM SMITH.—"Things which have the greatest value in use have frequently little or no value in exchange, and, on the contrary, those which have the greatest value in exchange have frequently little or no value in use."

commanding in exchange for itself the labour or the products of the labour of others."

PENSON defines value "as the expression of the worth of the one thing in terms of the other for which it is exchanged."

To avoid the inconveniences of barter, money was introduced very early and now-a-days the values of goods are expressed in terms of money.*

Value expressed in terms of money is called PRICE.

Value and price are not the same thing. Had they been so then why would people speak of "full value for the price." We find the Whiteway Laidlaw and Coy. to announce during a sale that they are offering a "greater value for a smaller price," etc. The real explanation lies in the fact that value and price have different connotations. Value which expresses the ratio between two things is a permanent phenomenon and *remains constant*. The term price, on the other hand, is used *only when a thing is for sale* and this price changes from day to day. It may rise abnormally high—higher than the value itself and may also fall very low, lower than the value itself. So it is said that while the value of a thing remains constant, the price may go high or fall low.

VI. The Problem of demand.

In a market, in the sale or purchase of anything, there are two parties to the bargain, the buyers and the sellers—the former are spoken of as representing DEMAND or the *demand side*, and the latter, the SUPPLY or the *supply side*.

What is demand?

By *demand* economists mean an effective demand, that

* PENSON says:—"Value is the expression of the worth of a thing in terms of that for which it is exchanged, but as now-a-days things are exchanged for money, the value of a thing may be said to be the sum of money that would be paid for it, or in other words—its PRICE."

is, not the mere desire to possess a thing, but desire supported by the offer of something valuable in exchange. A beggar may covet the pieces of bread arranged in the showcase of a baker, but it can never be interpreted to mean that he has *demand* for them unless he shows willingness as well as ability to pay for them.

Demand implies two things:—(a) Desire to possess a thing; and (b) ability to pay for it.

No demand apart from price.—Just as increase in demand for a thing leads to the rise in price, so also the size of the price influences the volume of demand. The increase in demand for fish would raise its price; its high price again would lower the amount of demand.

Elastic and Inelastic demand.

When our demand for an article is stimulated by a comparatively *small fall* in price, or is depressed with a *little rise* in price, the demand for the article may be said to be ELASTIC.

On the other hand, when variations in prices have no influence on the volume of demand of an article and people make their purchases as before irrespective of a rise or fall in price, then the article may be said to have an INELASTIC demand.*

ELASTICITY APPLIES TO HIGH AND MEDIUM PRICED GOODS.

Except for articles of absolute necessity of life, and for articles of very low price, *the demand for most of the goods we consume is elastic*, specially for highly-priced and medium-priced goods, *e.g.*, for watches, furniture, etc. For articles of low value and absolute necessities, the demand

* For a detailed study of Elasticity, read Chapter XXVII, *Laws of Consumption*.

is *inelastic*. Nobody would give up the consumption of salt, or no good Christian will forego the use of a coffin, when high prices are charged for them, nor would anybody consume more salt or stock a few coffins for future use when its price has fallen.

Individual and Market Demand.

The demand of an individual diminishes with every increase in his stock of a particular thing, and he will offer less and less price for every additional supply. *In short, the marginal demand price of an article (i.e., the demand price for the last unit of supply of a thing) diminishes the more of it one has.*

Market demand is influenced in the same way as individual demand. Price for goods in a market continues to fall when the supply of a thing increases. Demand is also simultaneously stimulated. Similarly, shortage in supply raises prices which in its turn affects the volume of demand.*

Law of Demand.

From our survey of the nature of demand, we may, after PROF. MARSHALL, state the *Law of Demand* thus:—*"The greater the amount to be sold, the smaller must be the price at which it is offered in order that it may find purchasers; or, in other words, the amount demanded increases with a fall in price and diminishes with a rise in price."* The basis of the law is evidently the law of diminishing utility. (Read, Ghosh—*Elementary Economics*, pp 40-42, and Chapter XXVII.)

* A DEMAND SCHEDULE.—A Demand Schedule is 'a table showing the amount that would be demanded at each possible price.'

V. The Problem of Supply.

Relation between Supply and Price.

Just as we have distinguished between *desire* and *demand*, so we must carefully distinguish between *stock* and *supply*. 'The *stock* is the quantity of goods that is for sale, the *supply* is the quantity that *would be sold at a given price*'. There is no such thing as supply apart from price just as there is no such thing as demand apart from price. If high prices are offered for an article the supply would increase; in case the price offered is low the supply would shrink.

Elasticity of supply.—The incidence of *elasticity* applies to supply in the same way as in the case of demand. The higher the price offered, the sellers as a rule are more willing to sell, and *vice versa*. The smaller the price, the lower is the margin of profit to the producers, and so the

					Cars
If prices were	Rs. 5000	annual demand would be			— 100
" "	Rs. 4500	" "	" "	" "	— 300
" "	Rs. 4000	" "	" "	" "	— 600
" "	Rs. 3500	" "	" "	" "	—1000
" "	Rs. 3000	" "	" "	" "	—1500
and so on."	Penson— <i>Economics of Everyday Life</i> , Vol. I				pp. 108-09.

When a manufacturer finds that the type of car he produces can secure for him a price of Rs. 5,000, only if the supply does not exceed 100 cars, then it would be to his interest to produce only that number, an increased supply being fraught with the immediate risk of depressing the prices of cars. On the other hand, when the supply of cars rises to 1,500 the price must be lowered to Rs. 3,000 to clear out the whole supply.

inclination to produce and to sell is at a discount. As a result the supply* shrinks.

Manufactured articles may be said to have greater elasticity because with rising prices the supply may be made to increase. But in the very short period, when supply has no time to adjust itself to the demand, the elasticity is limited. In the case of agricultural produce, where supply cannot be increased before the next harvest, the elasticity of supply is necessarily restricted.

Law of Supply.

So conversely to the *Law of Demand*, we may thus state the *Law of Supply*: *As the price rises, other things remaining the same, the quantity offered for sale at that price will increase and as the price falls, the quantity offered at that price will diminish.*

*The Supply Schedule.

The *cost of production* of different manufacturers for the same article is not equal. A comparatively low price may yet leave some margin of profit to an efficient producer, but it will entail loss to a less efficient producer. So it is necessary that each producer should know up to what stage he can produce and earn some profit and where it is judicious that he should stop. To protect himself against the risk of a loss he should do well to draw for himself a SUPPLY SCHEDULE as follows.

Number of cars that could be supplied at	Rs. 5000—16,000
" " " "	Rs. 4500— 9000
" " " "	Rs. 4000— 5000
" " " "	Rs. 3500— 3000
" " " "	Rs. 3000— 2000

The manufacturer is to note that when the price falls to Rs. 3,000 only, then 2,000 cars are to be brought to the market and only the most efficient firms are to continue producing. Those firms which are unable to produce at that price are to close their workshop altogether. On the otherhand, when the price rises to Rs. 5,000, it will be found so very remunerative to produce cars that even the most inefficient manufacturer will begin to manufacture and the total supply will reach 16,000 cars.

CHAPTER XVII.

THE PRINCIPLE OF EXCHANGE.

I. The Theory of Value.

In a market there are two parties to the bargain, the buyers and sellers—the former representing the side of demand and the latter, the side of supply. The value of a thing is ultimately determined by the interaction of the forces of demand and supply.

The Demand side.

The BUYERS (*i.e.*, those who represent the demand side) make an estimate of the *total or maximum utility* which they expect to derive from the purchase of a thing. Accordingly, they fix a MAXIMUM PRICE above which they would never bid in a market. The maximum price measures to the buyers the greatest amount of utility which they can ever hope to derive from the consumption of a thing. Of course, buyers would always higggle and bargain so as to pay a price lower than this maximum price.

The supply Side.

The SELLERS (*i.e.*, those who represent the supply side), on the otherhand, come to the market with a MINIMUM RESERVE PRICE below which under no circumstances it would be worth their while to sell. This minimum price represents *their cost of production*. No one can sell at a price below the cost of production. Through higgling and bargaining and also by withholding the supply the producers or sellers would always try to secure a price higher than this minimum.

There is thus a maximum and a minimum price for each article.

How the market price is determined.

*The market price oscillates between the maximum and the minimum through the interaction of the forces of demand and supply. If at any given time and price, the demand for motor-cars is greater than the supply, the price would rise and move towards the maximum. The high price would, however, very soon affect the demand. On the other hand, if at any given time and price, the supply of motor-cars is greater than the demand, then the price would fall and move towards the minimum. The fall in price would, however, stimulate the demand. Thus, through changes in prices, in the short period, demand and supply would gradually approach one another till they reach an equilibrium. The price at which they will be in equilibrium is called the **Market Price**.*

The following table would explain as to how the equilibrium between demand and supply is reached through changes in prices.

BUYER'S DEMAND	PRICE	SELLER'S SUPPLY
No. of Cars.	Rs.	No. of Cars.
100	5000	1500
300	4500	1000
500	4000	500
<hr/>	<hr/>	<hr/>
750	3500	450
1000	3000	300
1500	2000	100

We find that at the highest price, *i.e.*, at Rs. 5,000 for a car, the *demand* for cars is the lowest and at that price only 100 cars will be sold, while at that price the *supply* of cars is the largest, numbering as many as 1,500 cars. On the otherhand, at the lowest price of Rs. 2,000, the

reverse thing happens, the demand for cars rises to 1,500 while the supply goes down to 100 cars only, and many manufacturers of cars do not find it worth their while to produce cars.

Of the various prices noted in the table, we find Rs. 4,000 to be the **EQUILIBRIUM PRICE**,* a price at which the demand for cars and the supply of cars are at equilibrium, and 500 cars are both supplied and sold at the price.

Penson's summing up of the problem of Value—

Penson says that the whole problem may now be very briefly summed up:—

"The price of anything (i.e., its money value) is determined by the interaction of two forces, supply and demand which act and react on one another through the medium of price-changes until a state of equilibrium is reached. The equilibrium or Market Price measures at the given time and place both the marginal utility to those just induced to buy and the cost of production to the marginal sellers."

Prof. Marshall's Theory of Normal Value.

To explain the notion of normal value of a particular article, he DIVIDES THE PROBLEM OF VALUE INTO FOUR PERIODS, very short, short, long and very long period, and explains how in different periods of time demand and supply determine value.

* **STABLE EQUILIBRIUM.**—Some hold that once this equilibrium price is reached it will remain stable for all time to come and the *stable equilibrium* will never be disturbed. But that cannot be true. At Rs. 4,000 there is an equilibrium for a certain type of motor cars. It may so happen that better types of cars may destroy the demand for the cars in question altogether, or perfection of the aeroplane may once for all replace the use of motor cars, or some new invention may lead to a heavy fall in the cost of production of cars and thereby lead to alterations in the stable equilibrium price.

Prof. Marshall states that *"we might as reasonably dispute whether it is the upper or the under blade of a pair of scissors that cuts a piece of paper, as whether value is governed by utility (demand) and cost of production (supply)."* He wants to emphasize the fact that *value is neither governed at any time by demand nor by supply alone but by both together.*

(1) **VERY SHORT PERIOD NORMAL VALUE.**—On a market day in a market place, the value of fish would be determined by the total stock of supply on the one hand, and the total demand of purchasers on the other. The supply of fish being fixed for the day, *demand would have greater influence on prices than supply.* This is how **NORMAL MARKET VALUE** is determined. We should be careful not to commit the mistake of stating that in the short period demand alone determines price.

(2) **SHORT PERIOD NORMAL VALUE.**—In the short period, extending over a year or two, if due to a cattle disease, meat is temporarily given up by the people and the consumption of fish is resorted to instead, then the demand for fish would increase and also the price along with it, due to the fact that the supply of fish cannot be increased within so short a period particularly as fishermen are sceptic about the new demand remaining steady for a prolonged period. This doubt would not induce them to invest fresh labour and capital in the trade to adjust the supply quickly to the demand. As a result, the price would remain high and demand would exert greater influence than supply in determining it. But again, it would be clearly wrong to state that in the short period demand alone determines value irrespective of the forces of supply.

(3) **LONG PERIOD NORMAL PRICE.**—If the cattle disease creates a permanent distaste for meat and the increased demand for fish continues steady, then in the long period extending over ten or twenty years there would be enough time and opportunity for the supply to adjust itself to the demand. If the total demand for fish had leaped up from 500 to 1,000 mds. a day due to the cattle disease, in the short period under conditions of hesitancy the supply could not be raised much over 600 mds. and the heavy shortage in supply would lead to heavy rise in prices. But in the long period, new nets and new boats would be made, new hands would be drafted to the

fishing trade and the supply of fish may be made to increase so much so as to reach 1,000 mds. a day. Under such circumstances, the influence of supply or cost of production on prices would increase and PRICE WOULD ULTIMATELY COINCIDE WITH THE COST OF PRODUCTION.

II. Monopoly Prices.

Competition and Monopoly.

To secure larger profits, businessmen aim at higher prices and larger production. But competition stands in the way. According to law of demand higher prices cannot go with larger sales. But under monopoly, producers make a combine either to raise prices or to lower the expenses of production by a larger output. Under monopoly, production as well as sale is controlled by one and the same agency.

Kinds of Monopolies.

Monopolistic combinations are of various kinds such as (1) a temporary combination of dealers to raise prices which is known as 'cornering'; (2) a loose combination of producers for price agreement, such as of metal-ware dealers in Calcutta; (3) the typical German *Kartell* is a combination where individual firms agree to produce a certain percentage of the total output and hand over the individual output to the central agency for sale; (4) American Trusts is a combination which fixes the share of production of each firm and fixes the price of the output.

Monopoly is said to be *perfect* where the complete control of output in an industry is in the hands of a single agency. Monopoly avoids competition and raises prices. But competition is sometimes wasteful, *e.g.*, in the supply of gas, electricity, tramways, etc.

The principle of charging monopoly prices.

The monopolist charges his price *in such a way as to derive for himself the maximum amount of revenue*. He

would neither charge the highest price, nor the lowest price, but would so fix the price as to secure for him the highest amount of income.

The following table would explain the principle according to which the monopolist fixes his price:—

Railway Fare Per mile	No. of Passengers	Expenses Per Head	Revenue
3 As.	1000	2 As.	1000 As.
2 As.	2000	1 A. 3 Ps.	1500 As.
1 A.	5000	9 Ps.	1250 As.

When a railway charges a fare of As. 3 for a certain distance, one thousand passengers would avail themselves of the train journey, and after paying for the working expenses of the railway at the rate of As. 2 per head (of passengers), the net revenue would be found to amount to As. 1,000. A charge of As. 2 doubles the number of passengers and the net revenue increases to As. 1,500, while a charge of one anna makes the number of passengers fivefold but the net income is seen to fall down to As. 1,250. Thus it appears that by charging the highest rate the highest revenue is not obtained nor by charging the lowest, though under the latter circumstances large number of passengers can avail themselves of the opportunity of railway journeys. The rate at which the highest revenue (As. 1,500) is obtained is As. 2, which is neither the highest nor the lowest rate of fare.

CHECKS ON A MONOPOLIST.—Not only the monopolist cannot derive the highest revenue by charging the highest price but there are also other circumstances which hinder him to have an easy way. They may be stated as follows:—

First, a monopolist has seldom free choice in fixing prices; he may have to abide by the conditions of his monopoly. *Secondly*, exorbitant charges may lead to the introduction of substitutes. *Thirdly*, rival producers may come at any moment into the market. *Finally*, in the public interest the state may sometimes be forced to intervene, as has been done in the United States in the suppression of Trusts through legislation.

Prof. Ghosh says that where the monopolist has no cost of production to bear, his maximum gain must be the same as his maximum

gross receipts. When a cost has to be met for the production and sale of a commodity, it is not the gross receipts but the net receipts that the monopolist strives to maximise. The monopoly price and the total output to be produced are fixed accordingly.

Discrimination of prices, i.e., charging different prices to different customers, is not possible in a market for material commodities, for they are easily transferable from one customer to another. Price discrimination also offends the public. So far as personal services are concerned, discrimination is easy and possible, e.g., a lawyer may charge different rates from his rich and poor clients. Charging of railway rates is a case in point. Discrimination in prices is made also between home and foreign countries. When goods are sold out at rock-bottom prices in foreign countries, it is called *dumping*.

III. Value and Speculation.

Legitimate and Illegitimate Speculation.—Speculation may mean two things:—(a) *Dabbling in the market* by outsiders or gamblers actuated with the sole motive of pocketing individual gains to the disadvantage of other members of society, or (b) *buying and selling by professional speculators* with a view to steady prices in order to render services to society. Large gains made by experts attract amateurs who without knowledge and sufficient capital enter markets and ruin themselves and the industry as well. There are some who manipulate the market to create artificial glut or shortage. They ruin honest producers as well as the industry itself.

Formerly, speculators used to earn their profits by *making purchase in cheaper markets and selling in dear ones*. Improvements in communication have, however, wiped out differences of prices between markets, and to-day *people speculate in the same market between different times*, between this season and the next and even between this day or week or month and the next.

Speculator's services to Society.—He renders three-fold services to society.

(1) In the first place, *he insures against losses and accidents and makes a small profit for himself.*

A building contractor is a speculator. He stands between the prospective owner of a house and the actual dealers of building materials and of the sellers of labour, like that of masons, stone-cutters, electricians etc. The owner, as soon as he approves the estimates, is at once relieved of the risk of a further rise in prices of the different items of the cost of production and of any damage by fire or flood, etc. A steady and sober builder goes satisfied with a low but sure rate of profit.

(2) *By rational anticipation of demand speculators arrange the supply of things as we want them, which otherwise we should have to wait for to be made. Without him we might have sometimes suffered from paucity and sometimes from superfluity.*

(3) *"Speculators steady the price-level by arranging to spread supplies over long periods of time in proportion to demand."* When there is a tendency for the price of a thing to rise due to scarcity of supply, the speculator steps into the market, offers to sell the article at a lower price during the next season and demoralises the dealers who are making speculative purchases and were helping to force up prices. Prof. Ghosh says that speculators "quicken the adjustment of demand to supply: they lessen price fluctuations."

Evils of Speculation.—"Blind speculation which is avoidable cannot be too strongly condemned. It renders business feverish, and causes needless insecurity. And, when it is rife, many people are perverted by it into neglecting honest work and trying to get rich quickly by lucky hits."—Chapman, *Elementary Economics*.

IV. Some Special Problems of Value.

JOINT DEMAND.—In order to build a house, there is a *joint demand* for bricks, stones, mortar, timber, the services of masons, etc.,

and the demand for any one of the foregoing objects necessary to build a house may be said to be an item of *indirect* or DERIVED DEMAND for the house.

JOINT SUPPLY.—There are certain goods which cannot be produced separately but are joined together in a common origin and are produced together in a single process and the cost of producing one of them is the same as the cost of producing all of them, such as, wheat and straw, oil and oil-cake, gas and coke, mutton and wool, etc.

The prices of joint products must together be enough to cover their joint expenses of production. And the apportionment of this total price between the two joint products depends on the relative demands for them, or on their marginal utility.

COMPOSITE DEMAND.—The *composite* or *aggregate* demand for any commodity is the compounded demands of all classes of people who are in want of it. The composite demand for jute consists of the demand of Indian cottage-builders, English gunny makers, German textile manufacturers, etc.

COMPOSITE SUPPLY.—When a thing has several sources of production, it is said to have a composite supply. For example, in the manufacture of paper, raw materials are derived from grass, bamboo pulp, wood pulp, rags, etc., and they may be said to comprise a composite supply in the manufacture of paper.

CHAPTER XVIII

THE INSTRUMENT OF EXCHANGE

I. Evolution of Money.

Emergence of Money.—Due to the inconveniences of barter, from the very earliest times even the savage adopted some common medium of exchange. The pervading idea that determined the earliest form of money was the adoption of some instrument which was not only *pleasurable to the user himself but was most welcome and acceptable to whomsoever it was offered.*

So the earliest forms of money were generally either (1) *articles of personal adornment* or (2) *commodities of general consumption*, or (3) *goods that were naturally suitable to the circumstances of the community adopting it.* Thus we find the savage to adopt glass beads or cowrie shells as the instruments of exchange, the Japanese people to adopt rice, the Chinese—compressed blocks of tea, the Russians—furs, the Mexicans—gold dust in goose quills, the early Greeks and Romans—cattle, the Virginian planters—tobacco leaf, the Americans—corn or the staple cereal crop, and so on.

But general acceptability was always considered the essence of money. Money needs be, according to Prof. Marshall, a *clearly defined, easily handled, and generally acceptable medium of exchange.* As civilization advanced and trade developed, the earlier forms of money were gradually abandoned for their inherent defects and gold and silver were adopted as the medium of currency all the world over.

II. Precious metals were adopted as Money.

The precious metals—gold and silver, have been accepted as the medium of currency in preference to others for the following reasons:—

(1) *General acceptability*.—They are acceptable everywhere and by all. This is one of the most essential quality of money.

(2) *Durability*.—Animals and vegetable products, *e.g.*, cattle and corn, decay but precious metals do not, nor do they lose in weight or quality when stored for a long period. Again, gold and silver are better fitted to be used as money than other metals, like iron, tin, etc., which rust.

(3) *Portability*.—Of all the commodities except precious stones, precious metals have the greatest value in the smallest bulk. They therefore can be easily handled and carried in large values (in comparison with weight) on the person of the user. Portability also implies the idea of *imperishability* during the process of transit.

(4) *Divisibility*.—Money must be divisible so that it might be capable of being exchanged in all ratios. By division it must not also lose value like diamond.

(5) *Homogeneity*.—Homogeneity or sameness of quality is a condition which alone belongs to precious metals like gold and silver. This quality of homogeneity does not belong to animal and vegetable products.

(6) *Cognizability*.—Money materials should be such that they may easily be recognized by the way they look, feel, sound, and as a further protection against fraud and counterfeit they should be such as to be easily stamped and milled. Precious metals, like gold and silver, alone possess this characteristic.

(7) *Malleability or fusibility*.—It should possess the physical character suitable for coining and imprinting and

when not needed as coin should be such as can be easily melted and put to other uses.

(8) *Stability of value*.—The money material must possess steady value and must not change in value frequently as its important functions are to *measure and store value*. For this reason, precious metals are best suited for currency as their accumulated stock in the world is already so very large that a normal addition to its supply or a normal increase in its demand is not expected to substantially affect (lower or raise) its value. The comparative stability of value is one of the essential conditions of a successful form of money.

Best form of Commodity Money: Gold and Silver.

Precious stones are superior to precious metals in respect of portability but in all other respects they are inferior; they can be easily imitated, can not be divided without losing a large part of their value and have no uniformity of quality.

Grains furnish the two important qualifications of money, viz., universal demand and indefinite sub-division but they have the corresponding drawbacks, viz., they contain small value in great bulk and are liable to deterioration.

Again, *other metals* than gold and silver which were formerly accepted as money had to be given up as they failed to fulfil the conditions necessary for good money. Platinum was tried as money by a Russian Emperor, but its *want of malleability, comparative scarcity, and want of cognizability* obliged him to give up the experiment. Radium can never be used as money because it is extremely limited in quantity. Iron rusts and is not durable.

Conclusion.—So we may conclude that the existing economic stage of the world allows only gold and silver to be used as money, the former in the richer countries and the latter in the comparatively poorer countries.

Scarcity of gold.—The total supply of gold is not sufficient to meet the demand for currency purposes throughout the world though on sentimental as well as on economic grounds every country wants to adopt it as currency. Excepting Japan, which has lately adopted a gold currency, no other country of the East has gold currency. India, which trades with gold-using countries, and is expected to derive great advantages by adopting the gold currency has been recommended by the Currency Commission (Hilton Young) to forego gold currency as the world cannot afford to allow India to partake of its supply of gold which is none too large.

During and after the last War, due to the scarcity of the yellow metal European countries had to suspend the use of gold. Later on, many countries including Great Britain which reverted to the Gold standard had again to go back to the paper standard.

III. Functions of Money.

The most important of the services of money are:—

(a) Essential services.

(1) To serve as a medium of exchange.

The introduction of money has done away with the inconveniences of barter. Money to-day is a circulating medium and through it all goods and services are sold and purchased. It performs this service successfully because of its general acceptability.

(2) To serve as a measure of value.

To-day in terms of money we estimate and express the value of all other goods. In terms of the rupee we can say at once what multiple or fraction of its units or unit would exchange for a gramophone, a watch, a motor car, a pen, a

pencil or pins in a market. Under the system of barter, when in a market there were only 100 articles for sale, there used to evolve 4,950 ratios of exchange as ratios between each and every article had to be found out.

(b) Derived services.

(3) To serve as a store of value.

When perishable commodities like grains, etc., were used as money, the surplus value of one's production could not be safely stored. With the introduction of money it has become easy for a person to transform his saving into money and store it easily. The present form of money, again, has substituted *simple hoarding* of the older days and has facilitated investments in the shape of deposits in banks, etc.*

(4) To serve as a standard of deferred payments.

At least for periods over which monetary contracts between debtors and creditors usually subsist, *there should be stability of the value of money*. Grains and other commodities which are produced from year to year vary considerably in value according as the harvests are good or bad. But the value of precious metals, of which the total accumulated stock in the world is already quite large, is not affected by the annual contributions from mines. So precious metals like gold and silver may be usefully accepted as the instruments in making payments between long periods of time.

Money has facilitated Production.

If every man had to spend a considerable portion of his time in bartering his goods for others which he required for his own consumption, it would have been simply impossible for him to concentrate his attention on his own job. Divi-

* It is to be noted that value of money should not deteriorate as it would seriously depreciate the poor's savings.

sion of labour and specialisation on which our economic structure is founded to-day and which have facilitated production immensely would have been impossible under a system of barter.

Suppose, if a modern large-scale producer had to pay his labourers in kinds instead of in money wages, would then the present system of production have stood the ghost of a chance of success?

IV. Coins and the Currency system.

Coinage defined.—The manufacture of metallic money is called *coinage*. Coinage has been defined as the “stamping of a piece of metal for use as money so as to make known its denomination and value directly, or by indicating its weight and fineness.”

History of minting.

(a) *Currency by weight.*—The earliest form of metallic currency was *currency by weight*. The term English pound originally meant a pound weight of silver, the earliest English metallic currency.

(b) *Stamping of bars.*—As it was afterwards found very tiresome to weigh and assay metals everytime there was an exchange, the purity and weight of metals began to be indicated by a *stamp impressed on the bars or lumps of metals*.

(c) *Coining of money.*—The next step was to coin money of definite weight and fineness. The process made it possible for *coins to be counted*. The early coins, however, suffered from want of uniformity. The want of uniformity in the coins, however, was aggravated by the fact that “forgers, clippers and cutters of coin,” habitually clipped them and extracted metals from the coins.

(d) *Printing and milling of coins.*—Finally, coins began to be *stamped in complicated designs in faint relief*. The process of *milling* the edges of coins was learned from France and it was introduced to avoid fraud, clipping and counterfeit of coins.

Free coinage.

Coinage is either *free or limited*. Free coinage does not mean that coinage is done by the mints free of charge. A

country is said to have a free coinage when the mints coin standard money of the country unreservedly on the offer of precious metals to the mints by the public. In short, coinage is said to be free in a country where the mints are open to the public.

The essential condition of free coinage is the complete inability of mints to refuse or unreasonably delay to coin metal into the standard money of the country when it has been offered for coinage by the public.*

Free coinage may be of three kinds:—

(a) *Gratuitous coinage.*—When coins are struck by the Mint gratuitously, *i.e.*, without any charge, it is called *gratuitous coinage*. England was the only country where this system of coinage prevailed. The English Mint was by law compelled to accept all the gold tendered to it for coinage by the public and to 'purify and assay and coin it without charging anything for so doing. For every ounce of fine gold tendered, the mint gave back in exchange £3 17s. 10½d. Coinage of gold has been abandoned in Great Britain since she went off the Gold standard during the last Great War.

The English coinage seems to be free in a double sense:

(a) it is free in the sense that the mints are open to the public for coinage, (b) and there is no charge for coining.

* It is not, however, essential to the system of free coinage that it should be customary to take bullion to the mint to be coined. As a matter of fact, however, in England it was usual for people (under provisions of the Bank Charter Act) to carry their gold bullion to the Bank of England and to demand notes in exchange from the Issue Department at the rate of £3 17s. 9d. per ounce of standard gold.' One who presented the gold to the Mint and waited for about three weeks, he received, 1½d. more, *i.e.*, £3 17s. 10½d., the usual exchange value of an ounce of gold. England has gone off the gold standard for the second time in 1931 since the last war.

(b) *Brassage*.—When the charge levied by the Mint is proportionate to the cost of coinage, the charge or levy is known as *mintage* or *brassage*. The mint collects the cost not by directing the coiner to pay it separately, but by taking out of the coins an amount of metal equal to the cost of coinage. In France the system of *brassage* prevails.

(c) *Seigniorage*.—When the charge of coinage is disproportionately greater than the actual cost of coinage, the charge or levy is known as *seigniorage*. The *seigniorage* charge on the Indian rupee is very heavy. The charge is realized by taking out fine silver from the rupee and substituting it by alloy. Paper money may be said to have cent per cent *seigniorage*.

Limited coinage.

As opposed to free is the *limited coinage*. It is a form of coinage in which the mints are closed to the public and the Government only coins standard money on its own initiative to supply the country with adequate currency for exchange purposes. The Indian mints were closed to the free coinage of the Indian rupee in 1893. Since then India may be said to have a limited coinage. Of course, subsidiary coins in every country are struck by the Government.

V. Some terms connected with Money.

1. **Debasement of money.**—When *seigniorage* is charged on the standard money of a country, the coins are said to be light or *debased*.* The face value in such cases is much higher than the bullion or content value of the coin.

* Debasement has its serious defects. Once it is indulged in, it tempts governments to issue such a money in excess, as more coinage means more profits. But excessive coinage leads to a rapid fall in the value of money and upsets all business calculations. Abrupt and

2. Legal Tender money.—It is that kind of money which a creditor is obliged by law to accept from a debtor in payment of a debt expressed in terms of the money of the realm. This legal tender may be *full* or *limited*.

FULL OR LIMITED LEGAL TENDER.

In England gold coins possessed *full legal tender*, i.e., *they were acceptable up to any amount when offered by the debtor to the creditor*. But silver coins (shillings) possessed a limited legal tender up to 40s., the silver pence up to one shilling, and half pence and farthings up to six pence. *Any amount offered in excess of that sum may be refused by the creditor*. In India the rupee has got full legal tender. The sovereign which had full legal tender for many years has been deprived of it recently. Other coins of small denominations, whether of silver, nickel or copper have got limited legal tender up to one rupee.

Sometimes the term '*multiple legal tender*' system is used when in a country several metals have got full legal tender. The term '*composite legal tender*' system is used only when one metal has got full legal tender while others have got limited legal tender.

3. Standard Money.—Standard money or coin is one of which the *value in exchange depends solely upon the value of the material* (metal) *contained in it*. That is to say, the face value is equal to the bullion or content value. Such coins have got not only free coinage but full legal tender too.

4. Token Money.—This is also called *subsidiary money* or **Billion**. It consists of coins of smaller denomi-

heavy rise in prices prejudicially affect consumers and the creditor class. Investments shrink and financial panic follows affecting violently the industrial organization. Again, when government begins to debase the coins there can be no limit to it. Every fiscal need may induce further debasement.

nations for supplying small change and may or many not be of the standard metal, *e.g.*, small changes like the two or four anna silver bits, one to four anna nickel bits, copper pice, etc. *Token coins contain designedly by law a very small portion of their face value in precious metals.* They are not freely coined. The government alone mint and issue such coins in quantities as required for purposes of trade and exchange.

Is the Indian Rupee a token coin?

The standard money in India is the *rupee*. Unlike the standard money in other countries it has no free coinage. By the Currency Act of 1893, the Indian mints have been closed to the public, and the rupees are coined to-day on the initiative of the government. Due to limited coinage and inconvertibility into gold, it has been aptly said that the "*Indian rupee is an inconvertible token money printed on silver.*" It is a peculiar fact with the Indian rupee that *though it is the standard money and has full legal tender*, it has limited coinage. The rupee weighs 180 grains of silver 11/12 fine. Its exchange value with the British sterling has been fixed at 1s. 6d.

VI. Gresham's Law.

Sir Thomas Gresham, the commercial adviser to Queen Elizabeth and the founder of the London Royal Exchange is credited with the discovery of the following law:

*"In every country where two kinds of legal money are in circulation, THE BAD MONEY DRIVES OUT GOOD MONEY."**

* "The meaning of the principle is that those who want coins solely for the gold they contain, such as foreign merchants, banks, hoarders and goldsmiths, would refuse to take any but the heavy money. This would therefore tend to go out of circulation leaving for the most part only the light money for general use."—PENSON.

When does the Law operate?

Good and bad money are of several kinds and whenever they circulate side by side the law will operate. We propose to deal here with the following cases of good and bad money :—

I. WHEN WORN OUT MONEY IS IN CIRCULATION WITH FRESHLY COINED MONEY.

If in a country there is in circulation both worn out and fresh coins, the latter would gradually disappear from circulation.

How bad money drives out good money.—Bad money drives out good money in the following ways :—

(a) **By Hoarding.**—Whenever we want to put by some money for future use, we pick up fresh or full-bodied coins as they are deemed to *store the highest amount of value*.

(b) **In payments abroad.**—When a country has to make foreign payments, it has to export gold bullion or coins measured by weight. So merchants and dealers of coin who arrange for the export of gold naturally find it to their advantage to pick up the full weight gold coins from circulation instead of the lighter ones which have lost some of their weight by wear and tear.

(c) **By melting.**—When a goldsmith wants to melt gold coins for making ornaments or other works of art, he always picks up the full weight coins from circulation. Again, if the content value of a coin rises above its face value, then it would go to the melting pot as the bullion would be more cherished by the owner of the coin than as mere 'under-valued' coin.

Qualification of the Law.

The law would not operate if good and bad money

together are not in excess of the country's need for currency. Let us illustrate how this exception to the law operates in the case of an individual as well as in the case of a whole country. Suppose a man is paid his weekly wages aggregating Rs. 10 in seven worn out coins and three fresh coins. If the man's weekly expenditure be only Rs. 8, he would pass on in making payments the seven worn out coins and one fresh coin, and would retain or hoard the remaining two fresh coins. Thus the law operates by withdrawing from circulation 'good money'. On the other hand, if his weekly expenses amount to Rs. 10, then he would have to pass on to circulation the whole of his income without the opportunity of hoarding any money, good or bad.

Similarly, in a country if the total supply of money be in excess of the country's need for currency, then only the law would operate, i.e., all the fresh coins representing the excess amount of currency would be hoarded and will disappear from circulation. On the other hand, if the total currency be composed of both worn out and fresh coins and together they are not in excess of the country's need for currency, then both worn out and fresh coins would circulate side by side. Thus it is to be carefully remembered that the essential condition of the operation of the law is that THE TOTAL VOLUME OF CURRENCY IN CIRCULATION MUST BE IN EXCESS OF THE COUNTRY'S NEED FOR CURRENCY.

The law also would *not operate if the people feel any prejudice against the circulation of a particular kind of money.* If in a gold-using country paper money is introduced, the paper instead of driving out gold would itself cease to circulate if the people take a strong dislike to it. *In short, good money will drive out bad.*

Other forms of good and bad money and the Law.

II. WHEN OVERVALUED MONEY IS IN CIRCULATION WITH UNDERVALUED MONEY.

Suppose in a country there is *free coinage* of both gold and silver and the coins which have full legal tender circulate together at a fixed mint ratio of 1 : 15. Now, if due to excessive mining of silver its value in relation to gold falls to 1 : 16, then surely there would be an inducement on the part of possessors of gold coins to take them to the bullion market, to exchange them for silver bullion which has become cheaper, and to get it coined into more number of silver coins. Thus all the gold in circulation would go to the melting pot and would disappear from circulation substituting in its place a plethora of the overvalued metal—silver, in the currency. The silver coins are said to be *overvalued* because the mint attaches to it more value, *i.e.*, at the rate of 1 : 15 while its real market value is only 1 : 16. Similarly, gold is said to be *undervalued* in the sense that while the mint has fixed its value in relation to silver at the rate of 1 : 15 only, its market value stands at 1 : 16.

III. WHEN DEPRECIATED PAPER MONEY IS IN CIRCULATION WITH METALLIC MONEY.

When a country issues paper currency or notes in excess and is unable to redeem them in metallic money on presentation or demand, then their value would depreciate and fall lower than the face value. If, for example, the Reserve Bank of India issues notes, say, of rupees ten, in *excess* quantity and fails to redeem them, then their value would soon fall lower than rupees ten. The progressive fall in the value of notes *would lead people to pick up rupees from circulation and hoard them*. That is to say, a discount on notes would mean a premium upon rupees.

VII. Double and Single Standards. Money Standard.

"Since one of the main functions of money is to act as a measure of value it is necessary to have in each country some recognised standard by which all values can be measured, and which shall be subject to as little variation in its own value as possible."—(Penson). England adopted

the pound sterling, represented by the sovereign. (Note the distinction between *Standard Money* and *Money Standard*).

Monometallism.

When a country has got only one metal, either silver or gold, in circulation as the standard money of the country, then it is said to have a *mono-metallic system* of currency. China and Mexico have *mono-metallic silver currency* and almost the rest of the world had still lately *mono-metallic gold currency*. The system that obtains in India to-day is said to be the Sterling Exchange Standard.

ADVANTAGES OF GOLD MONOMETALLISM.—The system of currency is (a) *simple*, (b) adds *prestige* to the country, (c) facilitates *international payments*, (d) and due to comparative stability of the value of gold, it (gold currency) *secures a stability of prices*.

Bimetallism.

It is a monetary system in which the principal or standard money is composed of both gold and silver.

THE ESSENTIALS OF THE SYSTEM ARE: (1) That both gold and silver coins should remain in CONCURRENT CIRCULATION: (2) that both the coins should have FREE COINAGE at a fixed ratio of exchange (say, 1: 15): (3) that both the metals should have FULL LEGAL TENDER.

But the circulation of two metals at a fixed ratio leads to the operation of Gresham's Law. The moment the ratio between gold and silver (say, 1: 15) is disturbed by a change in the relative value of the metals in the bullion market (say to 1: 16), people will take gold which has become undervalued (1: 15) in the currency to the bullion market and will exchange it for more quantity of silver which when coined would give more silver coins (1: 16). Thus silver, the overvalued metal (bad money) will drive out the undervalued metal (gold) from the currency. For this reason

it is said that for practical purposes a *bi-metallic country can have in the long run only one metal in circulation*. For this defect bi-metallism had never been very successful as a monetary system.

ADVANTAGES OF BIMETALLISM: (1) It simplifies and *facilitates the problem of exchange* between gold-using and silver-using countries.

(2) STABILITY OF VALUE: When two metals are adopted as currency, the total money medium becomes large and so an annual addition or subtraction from the currency cannot affect the price level appreciably. Thus the system is expected to lead to a *stability of the price level*.

(3) LEADS TO GRADUAL DEPRECIATION OF MONEY: The total money medium being large and susceptible to expansion, there occurs a *slow and gradual depreciation of money*.

(4) HELPS THE STEADY RISE IN PRICES: Gradual depreciation of money leads to a *slow but steady rise in prices* and is beneficial to the *producer* as well as to the *debtor class*.

VIII. Paper Money.

HOW NOTES ARE ISSUED?

On the basis of metallic money (gold or silver), paper money or notes are issued in every country by the banks, invariably by the Central Banks. In some countries the notes or paper money are fully covered by metallic reserves, in others they are partially covered.

In England paper money is issued by the Bank of England which is a private institution (of course, under elaborate control of the government). In India until 1870 the Presidency Banks of Calcutta, Bombay and Madras used to issue notes, which however only circulated within the four corners of the Presidency towns. So to make the notes popular, the government undertook to issue it. But the

Act of 1934, which has created the Reserve Bank of India,—India's central bank, has conferred upon the bank the sole right of note issue.

IS PAPER MONEY, GOOD MONEY?

Paper money is good money as it performs the most important functions of money, *viz.*, it serves as a medium of exchange and also as a measure of value. True it is that paper money has no intrinsic value, but if it is fully covered by gold or silver, or if it is substantially covered by reserves, then it can be called good money. The essential condition seems to be that notes should be able to procure on demand the full amount of metallic money printed on its face.

REGULATION OF NOTE ISSUE.

The two principles that are generally followed in regulating note issues are the **BANKING** and the **CURRENCY PRINCIPLES**.

The banking principle maintains that equivalent quantity of reserves need not be kept for notes issued provided the notes are convertible on demand and no principle of sound banking is violated. In short, the system advocates elasticity, *i.e.*, expansion and contraction of currency according to trade demand without the need of a rigid reserve of gold for every note issue. On the other hand, the currency principle holds that notes can only be issued on the basis of an equivalent quantity of gold reserves. The latter principle was adopted in England by the Bank Charter Act of 1844.

THE BANK CHARTER ACT OF 1844.—In England note issues were regulated by the **Bank Charter Act of 1844**, which provided for the uncovered issue of £16 millions worth of notes, above which *every note issued by the Bank of England was required to be covered by equivalent quantity of gold*. This uncovered issue was known as fiduciary issue.

The Act provided that (a) the uncovered issue of notes should never exceed the maximum legal limit of £20 millions and that (b) the bank should maintain for further note issues equivalent reserve of gold. This rigidity in note issue has been abandoned since England went off the gold standard.

Paper money is classified as *Convertible and Inconvertible* paper money according as they are redeemable or not on presentation to the issuer. Convertible paper money may be issued by banks or governments. Inconvertible paper money can only be issued by governments or by Central Banks with the permission of the government.

Paper money is said to be convertible when the issuer is able to fulfil his obligation of redeeming or converting the notes into the standard money of the country on presentation or demand. To ensure convertibility of paper money metallic reserves are always to be kept in readiness by the issuer. The reserves need not be equal to the total volume or value of notes issued.

This reserve, however, when goes unregulated by the government may tempt banks to issue notes in *excess* of their capacity to redeem (or convert) because more profits are expected to follow from more note issues. *So almost all Governments have undertaken to regulate or control the issue of notes.*

Convertible paper money are of two classes. Where full reserve in gold or silver is kept against the notes issued, as for example, in U.S.A., they are called *gold or silver certificates*. In the other class of convertible paper only such a partial reserve is kept which astute bankers consider to be sufficient for the purpose under the then existing circumstances. If a convertible paper money is not legal tender as it is the case with the private European banks, it is called *credit*.

Mr. Keynes calls the convertible legal tender paper money as "Managed Money", or currency. The money standard of a country need not be a commodity like gold and silver. If inconvertible paper can circulate, the likelihood of a paper standard is conceivable. During the last war many gold standard countries adopted the paper standard. Thus though the standard was debased, custom, habit, convenience and legal tender kept them in circulation as real money. Many economists believe that a true paper standard may function better than the gold standard. (Ghosh— *Elementary Economics*).

Inconvertible (Unconvertible) paper Money.

It may be *designedly issued* by the government without any obligation to redeem it in gold or silver on demand. "It is money by virtue of the mere government order. It is issued by fiat or order of the government with no reserve of gold against it. So it has no fixed value in terms of gold or standard money. The government makes it legal tender and forces its circulation by paying their debts with it and accepting it in payment of all state dues and taxes." This kind of money is generally issued by governments in time of great financial stringency. The *American Greenbacks* is a case in point. A convertible paper issued by a government may also *degenerate ultimately into an inconvertible paper*, as had been the case with the French *Assignats* during the French Revolution and the German 'paper marks' during the last War. In case there be over-issue of these notes the price may fall almost to nothing. During the last War one million paper marks could purchase only a cup of tea.

IS IT GOOD MONEY?—It is to be remembered that inconvertible paper money if *not issued in excess*, is in no way inferior to convertible paper money. When a government

makes it *legal tender* nobody can have any objection to accept it as currency and in as much as it performs the main money function,—*viz.*, the function of serving as the medium of exchange, *it is as good as any other form of money*. Penson says that its chief defects are (a) its liability to great fluctuations in value on over-issue and (b) its limited circulation only in the country of its origin, as no foreigner would accept it. Popular prejudice, however, may stop its circulation altogether.

EVILS OF DEPRECIATED PAPER MONEY.

In five cases out of six, governments have been found to fall a prey to the temptations of issuing paper money in excess. The effect is two-fold. *External value of the money*, i.e., its exchange value in terms of foreign currencies, falls. Its *internal value* also falls i.e., the home price level rises. As a consequence, people with fixed incomes suffer, wage earners suffer as wages do not rise as fast as prices, creditors suffer while the debtors gain, business becomes speculative and uncertain, government becomes unable to meet its obligations without additional taxation and a further issue of more notes become necessary. At last the whole monetary structure of the country collapses.

Defects and advantages of Paper Money.

Paper money possesses many advantages. "It is handy, portable and extremely economical and hence its value can be regulated at will." The supply of metallic money, however, depends upon natural and technological conditions, so its value cannot be regulated.

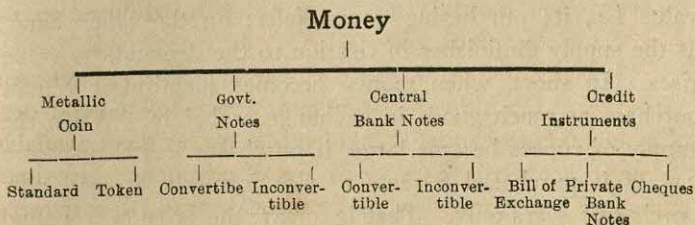
ADVANTAGES OF PAPER MONEY ARE:—(1) *Economic advantage*. Creation of paper money releases a good deal of metallic money from circulation and makes them available for more productive uses. (2) *Fiscal advantage*. In times of financial stringency, a government instead of borrowing

money and paying interest upon it can temporarily meet its obligations by creating or printing more paper money. But this alternative brings in the evils of over-issue. (3) *Stability of value*. Fluctuations in the price of gold have been found to range between 20 and 150 per cent. In the case of well-regulated paper currency, there may not be any such marked fluctuations. (4) The minor advantages may be said to include, (a) the saving of wear and tear of the metals, (b) the convenience of carrying it to long distances, (c) the convenience of making large payments with it, and (d) the creation of wealth by releasing metallic money from being used as currency.

THE MAIN DEFECTS OF PAPER MONEY ARE:—(1) *It is precarious*. The government issues it at will and can also demonetise or abolish it altogether when it pleases its fancy. It having no intrinsic value, the possessor loses everything. (2) *It is limited to a narrower area*. No other country would accept it in payment. (3) *Value is more changeable*. An overissue of notes, particularly of inconvertible paper depresses or depreciates its value alarmingly and raises prices phenomenally. Excessive note issues also drive out metallic money from circulation.

IX. Classification of Money.

From the above survey we may classify money as follows:—



Definition of Money.

Now we may finally define money in the light of our foregoing discussion. *'Money' usually means whatever passes readily from hand to hand in settlement of transactions.* It includes specie, of course; not only standard money, but token and subsidiary money. It includes bank notes (paper money) and government notes convertible into specie. It includes inconvertible paper so long as it passes freely in circulation.

X. Value of Money.

Some people wonder as to how there can be a change in the value of money. A rupee is always worth As. 16 only. But we are to remember that we do not value money for its own sake. We do not want a rupee merely to exchange it for As. 16, but we require it in order to procure other consumable goods in exchange. So we need enquire what a rupee can purchase in exchange. And according as the rupee can purchase more or less of things, we say its value has risen or fallen.

The value of money thus means what it can procure in exchange, i.e., its purchasing power. *The value of money or its purchasing power* (i.e., the power to purchase in exchange other goods) is determined, like the value of all other goods, by the forces of demand and supply. As the supply of money increases disproportionately to the demand, its value i.e., its purchasing power falls; on the other hand, as the supply diminishes in relation to the demand, its value rises. In short, when money becomes plentiful it cannot purchase as much goods in exchange as before. When the supply of rupees become large, it purchases less than before e.g., if it purchased 8 seers of rice formerly, it may now purchase 5 seers only. That is to say, the price of a maund

of rice would rise from Rs. 5 to Rs. 8. So we may conclude that *with an abundant supply of money, its value or purchasing power will diminish and the level of prices in the country will rise. In case of scarcity of money, on the other hand, its value or purchasing power will increase and the price level will fall.*

XI. Quantity Theory of Money.

From the above study of the problem of value of money it becomes clear that there is a ratio between the quantity of money in circulation in a country and the price level. Economists thus state the Quantity Theory of Money:—*“Other things remaining the same, an increase in the quantity of money would always be followed by an increase in the price level and vice versa.”*

If in a country the volume of currency be Rs. 100 crores, and if suddenly the volume be doubled, *other things remaining the same*, i.e., the number of transactions or the volume of trade, the rapidity of the circulation of the monetary units, etc., remaining as it is, then assuredly each article will sell at twice its former price.

But ‘other things’ do not remain the same for ever, and the value of money may seem to rise and fall irrespective of the quantity of money. So we need study ‘other things’ very carefully.

QUALIFICATION TO THE THEORY: OTHER THINGS:—Mere increase in the quantity of money would not affect the price level and the value or purchasing power of money. *The price level is determined with reference to (at a ratio of) the quantity of money on the one hand, and ‘other things’ on the other.* Let us now examine the ‘other things’. If the *volume of trade or transaction* increases proportionately to the increase in money, that is to say, the additional money finds

just as much additional work to do, then the ratio between goods and money, that is, the price level would remain as before. If the imports of precious metals *go to the arts*, i.e., employed in manufacture of ornaments and similar other artistic goods, then it can have no effect on the price level. Similarly, if the additional imports of precious metals go into hoards then it would have no effect on the price level. But if the *rapidity of circulation of money* increases, that is to say, money passes from hand to hand more rapidly then it would have the same effect on the price level as increase in the quantity of money.

Prof. Ghosh thus states the quantity theory of money:—

$$V \text{ (value of a unit of money)} = \frac{MR}{T}$$

M. represents supply of Money

R. represents rapidity of circulation

T. represents volume of Trade

XII. Appreciation and Depreciation.

Appreciation and depreciation are the two phases of the changes in the value of money. Appreciation or rise in the value of money means that it can purchase more of other things than before. When one rupee can purchase ten seers of rice in place of eight seers, we are to say that there is an appreciation or rise in the value of money. Rise in the value or purchasing power of money corresponds with a fall in the price level. *Appreciation implies a fall in the price level.* On the other hand, when a rupee can purchase only 8 seers in place of 10 seers of rice, we say that the value or purchasing power of money has fallen or depreciated. *Depreciation implies a rise in the price level.*

N.B.—We are, however, to remember that the price level may fall or rise due to other causes also, e.g., due to a rise in the cost of

production, or the unconscionable exaction of a monopolist producer, etc. Such rises in prices are not the result of appreciation and depreciation of money.

Effects of Appreciation and Depreciation.

SOME ECONOMISTS ARE OF OPINION THAT DEPRECIATION IS GOOD BECAUSE HIGH PRICES :

(1) Give a stimulus to production; (2) benefit the debtor class as they by selling less quantity of goods can repay their debts.

BUT THERE ARE OTHER PARTIES WHO ARE ADVERSELY AFFECTED BY DEPRECIATION OR RISING PRICES :—

(1) Creditors lose (as the purchasing power of their money has fallen), while the debtors gain. (2) Consumers, specially those with fixed incomes, *e.g.*, widows and orphans who enjoy fixed annuities, suffer. (3) Labourers also suffer as wages do not rise as fast as prices. (4) High prices, again, sometimes lead to over-production and under-consumption. They culminate in industrial crisis.

ON THE OTHER HAND, THE ADVOCATES OF APPRECIATION HOLD THAT IT IS GOOD BECAUSE :—

(1) It helps widows and orphans who have small incomes, and also those who have *fixed incomes*. (2) It does not encourage trade booms and financial panics, and so guarantees legitimate trade, and protect the investor. (3) Consumers as a class, including the great body of labourers, are benefitted by a fall in price, *i.e.*, by a rise in the purchasing power of money.

But it has also its dark side. While creditors gain, producers and debtors lose. Production is thus discouraged. Rapid fall in prices sometimes throw industries out of gear and lead to unemployment.

The consensus of opinion is, however, on the side of the debtors who comprize to-day the great body of industrial

enterprisers. Accordingly, a gradual depreciation of money or a steadily rising prices is advocated.

XIII. The Price Level: High and Low Price.

The price of a particular commodity may rise or fall now and then, but only when prices as a whole (*i.e.*, for most commodities) are lower or higher, we speak of a *fall* or a *rise* in the **general price level**. During the period of the last War, the prices of *almost all* commodities rose three times as much as they were before the War. We might say under the circumstances that the general price level rose three times as much as before and the value of money fell to only one-third (33 per cent.). We should note that a *rise in the general price level does not mean that the price of each and every commodity will go up equally but that most of the prices of articles in most common use at any particular time will rise.*

Rise in 'single price' seldom affects the Standard of Life.

A man's income is not seriously affected in case of a rise or fall in the price of any one particular commodity of consumption, unless the article happens to be something that comprise a considerable portion of one's consumption or expenditure. A rise in the price of wheat, or rice, may, of course, affect seriously the Indian wage-earners and the lower-middle class, not to speak of the poor, the major portion of whose income is expended upon them. Such a rise in the price would surely lead to a serious curtailment of their expenditure in other directions. But a rise in the price of every single commodity, say, matches, kerosene oil, etc., would not affect seriously the income of most persons. So it follows that *excepting such absolute necessities of life on which the poor spend almost the whole of their income, a rise or fall in price of any single commodity would not affect*

the standard of life. If the demand for a thing be *elastic*, a rise in its price will seriously affect its consumption.

Rise in 'general price' level affects the Standard of Life.

But in case of a *general rise in the price level*, even if it be *slight*, it is bound to be felt individually and collectively by the whole community unless at the same time there be a corresponding rise in income. Without a corresponding rise in income, a rise in the general price level would always be followed by a lowering of the standard of life.

Conclusion.—So we may conclude after PENSON that a rise in the price of a particular commodity unless it be such as to swallow up the major portion of one's income, will not affect the standard of life. But a *rise in the general price level* would seriously affect the standard of life unless there be a corresponding rise in income.

Causes of High and Low Prices.

The price of a thing would rise when there is,

- (a) *a feeling of optimism following a period of brisk trade,*
- (b) *an increase of currency,*
- (d) *a general increase of money income,*
- (e) *an improvement in productive methods such as cheaper power or cheaper transport which would reduce cost and expand the markets.*

The price of a thing would fall when there is,

- (a) *greater facilities for obtaining credit,*
- (b) *a general falling off in demand,*
- (c) *an increase in the cost of production,*
- (d) *restriction in credit facilities,*
- (e) *a withdrawal of labour from industry for war purposes, or from basic industries, such as mines or transport, as a consequence of strikes,*
- (f) *the interruption of sea transport, or the severance of economic relations with countries which were important sources of supply.*

XIV. How to measure the Price Level: Index Number.

The rise and fall in the price level,* we have seen, affect greatly the producers and consumers, as well as the debtors and creditors, and in general exercise a great influence on the economic life of a community.

How to measure real income.

For the purpose of comparing the real values of wages and incomes at different periods of time in the same country and also between different countries, measurement of changes in prices is necessary. Money income (nominal income) does not indicate real income. *The purchasing power of money income does only serve as an index of the real income of a person or a community.*

Index Number.—PENSON says that the general level of prices at any given time may be measured or indicated with reference to other periods of time or countries, by means of what is called an INDEX NUMBER.†

* Read the effects of Appreciation and Depreciation of money.

† AN INDEX NUMBER is a number which represents the prices of a chosen commodity, or group of commodities, or the average of closely consecutive prices of those commodities at a selected date, which is used as a standard or base wherewith we may compare the prices of the same article at later dates.

CAUTIONS TO BE TAKEN—In framing an index number we should be careful to note the following points:—(1) The *basic year* which we take should be a representative year when prices were neither excessively high or low; (2) we should take an *exhaustive number of articles* and specially those which are consumed by the particular community in question for the study of whose economic condition we are framing an index number; (3) we should attach *proper weightage* to commodities according as they are important to us.

How to frame an index number.—For framing an index number, we are to take a list of commodities in most general use. Then we are to put down their prices as they obtained on a certain basic date with which we are to compare the present prices. We are to put the prices of each of the articles of the basic year as 100 and state the prices of the year or years to be compared with in percentages of the prices of the basic year. The percentages thus obtained of each of the commodities in the table are to be added up and divided by the number of commodities, the quotient giving the index number for the particular year.

A concrete illustration will make the idea clear.

	1913		1920		1938	
List of Commodities	Price-base		Price-base		Price-base	
	RS.	AS.	RS.	AS.	RS.	AS.
Rice per md. ..	5	0—100	7	8—150	3	12—75
Pulses, per md.	7	8—100	11	4—150	5	0—75
Coal, per ton ..	6	0—100	18	0—300	4	8—75
Iron per cwt. ..	12	0—100	24	0—200	9	0—75
Sugar, per md.	10	0—100	20	0—200	12	8—125
Ghee, per md. ..	60	0—100	120	0—200	75	0—125
	6)600		6)1200		6)550(
	100		200		91.4	

Explanation.—Suppose we want to compare the prices of goods in India with the pre-war year 1913 with those of post-war year 1920 and the pre-war year 1938 so as to find out how much rise and fall there have been in prices and how a man's real income has thereby been affected.

We put down the prices of the commodities in most general use in our country in the year 1913—the base year, with which we want to compare the prices of 1920 and 1938. The average price of each of the six articles in the year 1913 is taken to be represented by 100. In the year 1920 we find the prices to have risen very high and expressed in percentages of the prices of 1913, they range between 150 to 300 per cent., recording an average price of 200 per cent. In 1938, we find the prices to have fallen and to record an average of 91·4 per cent.

Under the circumstances, we may state, that a person who had an income of Rs 100 in 1913, could not purchase with his income in 1920 more than one-half of the commodities which he could purchase in 1913, while in 1938 his income could procure for him about 8·6 per cent. more of commodities than what his income could purchase in 1913.

Weighted and unweighted Index number.

We are to note that an index number may be *weighted* or *unweighted*. Weighting means the taking account of the relative importance of the different articles composing an index number. A change in the price of rice, for example, is of much more importance to the general public than a change in the price of ghee which is consumed by the well-to-do. If rice were to double in price, the purchasing power of a given income would be seriously affected; if ghee were to double in price, much less. The varying importance of different commodities may be emphasised in the construction of an index number by assigning weight to the commodities in the proportion of their consumption. If the community as a whole spends four times as much of its income on rice and pulses as on sugar and ghee, then rice and pulses may each be counted as if they were four articles, and sugar and ghee as if each of them was one. If twice as much is spent on coal and iron as on sugar and ghee, coal and iron are to be counted as if each of them were two articles. The weighted index number would then stand thus:—

CHAPTER XIX

CREDIT AND BANKING

At the very earliest stage of human civilisation, exchanges used to be made through *barter of goods*. The inconveniences of barter led to the introduction of money. At a later stage, metallic money was found not only insufficient to perform the entire volume of exchanges but was found very cumbrous as an instrument of exchange. So finally *credit money* came in.

I. Credit Money.

It is customary to confine the term *credit money* to that form of money *which is not made of the standard metal and which has a face value greater than its intrinsic value*. It is ordinarily regarded to consist of notes,* token coins, cheques and bills of exchange. Modern writers, however, treat "*money as what money does*". So they include cheques, bills of exchange, and bank notes (of private banks which has no legal tender like the notes of central banks, *e.g.*, of the Bank of England) *in the category of money and not of mere credit*. However, we propose to treat them as credit following the orthodox view.

DIFFERENCE BETWEEN CREDIT MONEY AND ORDINARY MONEY

The differences are two-fold:—(1) The fundamental idea of credit money is *trust or confidence* in the issuer, and

* Notes are not in the ordinary sense of the term credit money because they are issued in almost all instances fully or substantially covered by gold or silver reserves and their acceptances do not involve any act of confidence or waiting.

(2) it helps to *transfer present wealth for future wealth*. A shopkeeper is paid by his customer by means of a cheque on a bank. By accepting the cheque the former affirms his confidence in the issuer's financial solvency. Further, by accepting the cheque offhand in return for actual goods sold, the shopkeeper transfers present wealth (*i.e.*, goods) in expectation of future wealth which would only pass into his hands when the cheque is encashed through a bank.

Confidence and time are therefore the two important elements on the basis of which the modern credit structure is imposed.

II. Credit Instruments.

Prof. Ghosh designates all such credit instruments, *e.g.*, bank and government notes, cheques and bills of exchange, as *Bank Money or Credit*. They comprise in England and the U. S. A. 90 per cent of the total medium of exchange. They are not money proper but mere promise to pay metallic money. Its acceptability depends upon *trust*.

Bank Notes are now-a-days strictly regulated and limited by law in its issue and provision is made for their free convertibility by providing adequate reserves of gold. Central bank notes possess full legal tender and their convertibility is provided for. Notes of private banks are becoming fewer and rarer. As they have no legal tender they are regarded as credit instruments.

Government Notes are similar to bank notes except that they are issued by the State. The history of State issues of notes is, however, far from happy. Governments have often over-issued them and have led to their violent depreciation. Such notes possess full legal tender.

A Cheque is an unconditional order on a banker for payment of a certain specified sum of money on demand,

signed by the drawer (the banker's depositor), and may be made payable to a definite payee, to the drawer himself, to an impersonal payee, or to the bearer. It is thus a special kind of bill of exchange.

As a general rule, though cheques and bills of exchange pass current only within a limited circle, the latter pass current far more frequently and through wider areas than cheques.

The nature of a Cheque.

A cheque is not money proper but a credit-substitute for money. A cheque is an order issued by a depositor upon a bank requiring it to make specified payments on demand. The value of a cheque to one who accepts it in payment from a debtor depends upon the *good faith* (i.e., honesty) of the person drawing it and on the *credit or solvency* of the bank on which it is drawn.

The element of confidence is prominent in the case of cheques but unlike other credit instruments practically *no time elapses* between the offer of a cheque and its final encashment. That is to say, when a payment is made in a cheque, to all intents and purposes the transaction is complete. For this reason a cheque is considered as good as money.

BUT A CHEQUE IS NOT MONEY FOR THE FOLLOWING REASONS:—

(a) A cheque would not be accepted *without question* like money, unless the acceptor has got full *confidence* in the person drawing it.

(b) A creditor may refuse to accept it as it has got *no legal tender*.

(c) It has not got *general acceptability* like money and does not pass from hand to hand. It often finishes its

career by a single transaction and finds its way to the bank upon which it has been drawn.

Merits of the cheque system.

MERITS OF THE CHEQUE SYSTEM—Penson thus sums up the advantages of the use of cheques:—"It is extremely convenient. It does away with the necessity of keeping large sums of money at hand, and the counterfoil of the cheque-book is always a register of the payment made. It is a substitute for money and thus enables the trade of the country to be carried on with a much small amount of gold. A cheque is also a convenient form in which to receive payment." The cheque system has taken a deep root in Great Britain than in other continental countries.

A Specimen Cheque

Counterfoil	No. L 243899 Calcutta 15th January, 1935
Dated, 15th January, 1935	The Bengal Central Bank, Ltd., Cal.
H. CHATTERJEE & Co.,	Pay Mr. A. C. Mitra or bearer
for Author's remuneration	Rupees Two thousand and
	Five hundred only
Rs. 2,500/-	Rs. 2,500/- H. CHATTERJI & Co.

A bill of exchange is an order, payable at sight or at a definite period, drawn by a creditor (usually, a seller of merchandise) generally known as *drawee* upon a debtor (a purchaser of merchandise), better known as *drawee*, calling upon the latter to pay a sum of money to the bearer of the bill on demand or to a third person generally known as *payee*.

This credit instrument is a powerful means of financing trade. On the one hand, the debtor is allowed time, generally for 90 days, to pay off his indebtedness, while the creditor by discounting his bill of exchange at a bank gets the value immediately which enables him to engage in fresh transactions.

A Specimen Bill of Exchange.

£250 due 20th April, 19,.....

London, 17th Jan. 19.....

<div>3/-</div> <div>Stamps.</div>	<div>Three months after</div> <div>Mr. M. Bressloff or</div> <div>two hundred and</div> <div>value received.</div>	<div>Accepted.</div> <div>Payable at</div> <div>the Country Bank Limi-</div> <div>ted, Kingsway Branch.</div> <div>M. Goodman.</div>	<div>date pay to</div> <div>order the sum of</div> <div>fifty pounds for</div> <div>J. Rowell.</div>
<div>To Mr. M. Goodman.</div>			

III. Functions and Advantages of Credit.

(1) It economises metallic currency and substitutes a cheaper medium of exchange. (2) It enables payments to be deferred until it is convenient for the borrower to make them. (3) *The careful regulation of credit tends to minimise fluctuations in prices and to stabilise trade conditions.* (4) Credit helps production by making capital available to men of business ability from men who have capital but little ability to invest it. (5) It furnishes us with better instruments of payment, eg., by cheque in internal payments, and by bills of exchange in foreign payments. (6) It is more convenient to carry or keep, and safer and cheaper to transport.

EVILS OF CREDIT. (1) Excessive credit leads to speculation in business and may bring ruin and disaster to many. (2) Men who borrow for consumptive purposes generally become extravagant.

IV. Bills of Exchange.

Through bills of exchange foreign trade is financed. Every country has its exports as well as imports for which it has to receive as well as to make payments. Ordinarily,

such payments would have entailed cross currents of gold and silver flowing between one country and another. To pay for imports, money would, on the one hand, have flown out, while to pay for exports, on the other, money would have flown in.

Why bills are drawn.—But movement of precious metals entails considerable expenditure in the shape of (a) packing expenses, (b) insurance charges, (c) freight charges, and (d) loss of interest for the period that gold is in transit. The difficulties of procuring gold for export are also great.

To avoid the difficulties as well as the economic losses arising out of double transportation of gold between countries, the device of the credit instrument known as the *bill of exchange* has been invented.

How the bill is drawn.—The exporter of a country draws the bill of exchange upon the importer in the foreign country. The exporter, *i.e.*, the *drawer* wants the importer or the *drawee* to find some solvent person or bank to stand guarantee for final payment of the bill by endorsing it. Such a person is called the *acceptor*. After the bill is accepted the exporter arranges to put down the goods on board a ship for export. The accepted bill becomes negotiable and is ultimately discounted with a bank and the drawer gets his payment. Bills so drawn are either payable on sight, or after 30, 60 or 90 days. Commercial bills are generally *long* or three months' (90 days) bills. The most peculiar thing with India is that unlike other countries she draws bills on England and other foreign countries in sterling, while British and other foreign exporters draw bills on India in sterling as well.

A CONCRETE EXAMPLE.—Suppose India and England trade with each other, the former having rupee currency and the latter gold

currency. Suppose, again, that the Indian rupee exchanges for British sovereign at the rate of 1s. 6d. to the rupee or £1=Rs. 13-5 as.

An Indian merchant, say Mr. Hukumchand, imports cloth valued at £1000 from Mr. King of Manchester. On the otherhand, Mr. Sitanath Roy exports jute valued at Rs. 13,333 to Mr. Parker in England. British exporters do seldom draw bills. So Mr. Roy would draw a bill of exchange (usually, a long *bill which* will mature after 90 days) against Mr. Parker for Rs. 13,333 (£1000). After the bill is completed and *accepted by a bank in India on behalf of Mr. Parker* it becomes negotiable. Mr. Roy cannot wait for three months to get the value of his bill. Had he to wait, for the shortage of capital (due to its being locked up in the bill till maturity) it might be impossible for him to complete more than one transaction in one jute season. So he must find money. For the purpose, he approaches a bank. A bank's important business is to lend money. The exporter asks the bank to purchase the bill from him at full value *minus* the current rate of interest for the period the bill would take to mature. *This is known as discounting of bills.* Banks in this manner finance trade.

Mr. Roy thus puts himself in funds by discounting his bill. The exporter is thus remunerated for his exports. But why the bank should purchase the bill? The Bank purchases it because Mr. Hukumchand who has imported cloth valued at £1,000 (the exchange value of which in rupees amounts to Rs. 13,333 calculated at the rate of 1s. 6d. to the rupee) may require it for making his payment to Mr. King in Manchester. Hukumchand purchases ultimately the bill from the bank as he does not wish to send gold bullion direct to England. Mr. Hukumchand on getting the bill sends it to his creditor Mr. King in Manchester, who on his part waits and on the maturity of the bill (*i.e.*, after 90 days) realises the value from Mr. Parker against whom the bill was originally drawn. In case the bill does not mature early, Mr. King may also discount it with a bank without waiting further. Thus through the instrumentality of a *bill of exchange* all the parties make their payments as well as receive their payments even when they are placed in far-off countries, and each having a different form of currency. The process obviates the necessity of transmitting to foreign countries even a single ounce of gold.

The whole transaction can thus be explained by the following diagram.

INDIA.

sells (*i.e.*, discounts) bill drawn on

Sitanath Roy	Parker at a Bank	Hukumchand
(Creditor)	from which Mr. Hukumchand	(Debtor)
Exporter.	purchases at Rs. 13,333.	Importer.
<div> <div> sells jute and draws bill valued at £1000 on Parker </div> <div> sends bill worth £1000 which is an equivalent of Rs. 13,333 to King </div> </div>		
Mr. Parker	King collects £1,000 for the bill from	Mr. King
(Debtor)	Parker on maturity	(Creditor)
Importer.		Exporter.

ENGLAND

PENSON states that the following points about bills of exchange should be carefully remembered:—

1. They give the owner the right to receive a specified sum of money at a given place and time and this right can be bought and sold.
2. They provide a cheap and convenient way of paying debts incurred in a foreign country.
3. They enable a merchant to be paid for goods sent abroad in the money of his own country.

Credit economises the use of gold.

Bank notes, bills of exchange and cheques are promises to pay ultimately standard money or gold. But many payments are being made through them and so they circulate from hand to hand and dispense with the need of immediate payments in gold. In their absence all transactions should have been settled in gold. As a result the demand for gold would have been tremendous.

V. Banks and Banking.

What is a bank?

The business of banking,* generally speaking, consists of *taking money on deposit, in issuing notes and drafts*, and in making loans. The funds obtained from deposits together with the capital supplied by the shareholders of the bank, are employed in making advances or loans, in the discounting of bills and in investment in first class or gilt-edged securities, such as in Public Fund (Government Paper), shares of big companies, etc. Some part of the capital is kept in cash, known as reserves, for meeting current or day to day requirements.

Functions of Banks.

Banks came into existence at first to perform the following functions:—

- (1) *Financing*, i.e., raising money to give loans to governments. The Bank of England was started when certain capitalists

* A 'BANK' DEFINED.—Prof. Kinley thus defines a bank: "A bank may be described in general terms as an establishment which makes to individuals such advances of money or other means of payment as may be required and safely made, and to which individuals entrust money or the means of payment when not required by them for use."

made a loan to the Government of William and Mary to carry on their Dutch war.

(2) *Money changing, i.e.,* giving the people good money in place of a medley of foreign coins. The Bank of Amsterdam was established in 1609 to perform this function.

(3) *For Safe deposit.*—The London City Banks were primarily established to perform this service. Londoners for fear of robbery used to deposit their valuables with goldsmiths who had well-fortified houses. At first the depositors used to make some payment to the goldsmiths for holding in safe custody their valuables, but as soon as the latter learned the way to utilise the deposited resources to their advantage they instead of charging the custody fee began to offer interest for the deposits as an inducement to draw further deposits. The receipts which the goldsmiths gave circulated to some extent and may be said to be the earliest form of bank notes. The origin of banking grew out of the knowledge that all depositors do not draw their deposits at one and the same time.

Most Important Modern Functions.

DEPOSIT AND DISCOUNT—These are the most important functions of modern banks. By accepting deposits the banks gather into one great reservoir the wealth of millions of individuals who know not how to use their money to the best advantage, and then by discounting bills of exchange they invest the collected wealth in various directions to effectively irrigate the fields of industry and commerce. The banks borrow through deposits and lend through discount.

ISSUE OF PAPER MONEY—Some banks, called banks of issue, supplement the metallic currency by the creation of representative money known as *bank notes*. Such banks are called Central Banks, *e.g.*, the Bank of England, the Bank of France, etc. The Reserve Bank of India is the Central Bank of India and has begun since 1935 to issue notes which the Government of India used to do previously.

OTHER SECONDARY FUNCTIONS—"In addition, a bank acts as an agent for customers and other banks in collecting

dues and making payments, in buying and selling stocks and shares. It also acts as trustees, executors and attorneys, issues letters of credit to travellers, deals in foreign exchange, and serves as correspondents of other banks."

OTHER KINDS OF BANKS.

By the term 'bank' we ordinarily understand those *commercial banking institutions* which lend money to business people for *short periods* against gilt-edged securities. There are also other kinds of banks. To help the business community with long term loans, *Industrial Banks* have come into existence. *Exchange Banks* help to finance trade. *Land Mortgage Banks* help to solve the problem of agricultural indebtedness. *Co-operative banks* for credit as well as for non-credit purposes have to-day been organized for the benefit of the agriculturists.

Deposit and discount.

Deposit and Discount, i.e., borrowing and lending are the two most important functions of banks. By offering to pay a rate of interest which varies according to the exigencies of the money market, banks draw deposits from people who by themselves cannot lend money to advantage. The banks then lend this capital to its constituents at a comparatively higher rate and pocket a decent amount of profit out of the differences.

As the banks borrow money through deposits, they also lend through it. They are called '*created*' deposits. When approved borrowers approach the banks with gilt-edged securities, the banks instead of lending money directly create deposits in their favour in the ledger of the bank representing the amount of the loan and allow the borrowers to draw upon these deposits, known as created deposits, through cheques. *So it is said that loans create deposits.* Deposits are either fixed or current deposits.

Banks lend money or make investments through the discounting of bills. These bills are generally bills of exchange. Banks also lend by discounting promissory notes drawn by businessmen. Banks also lend money against securities. The system of credit is the basis upon which is built the structure of a modern bank.

Banks dispense Credit.

Banks organise and control the issue and circulation of credit instruments, like bank notes, cheques, etc., on the one hand, and regulate the granting of book credit in the form of advances, loans, discounting of bills of exchange, on the other. It is the prime function of bankers to adjust the supply of capital to demand without which production would greatly suffer.

A CLEARING HOUSE.

"Cheques drawn upon one bank are often deposited in another. So the representatives of all banks meet at the Clearing House on stated days, balance their mutual claims and pay the difference by drafts or cheques on the central bank. The latter settles the claims of each bank against every other by means of book entries without the help of coin."

CHAPTER XX

TRADE BETWEEN COUNTRIES

I. International Trade.

National self-sufficiency is no longer the goal of economic efforts. Interdependence has to-day become universal. India purchases cloth from England and Japan and sells raw cotton to them. She purchases sugar from Java, wheat from Australia, petroleum from Russia, machinery from Germany and glass manufactures from Belgium, while her tea and wheat find markets in England, hides and skin in the United States of America, raw jute in Germany, pig iron in America, and so on. It is through international trade that we procure goods which we cannot produce at all or can produce at a comparative disadvantage, and also we dispose off our surpluses.

Home and Foreign trade distinguished.

As trade between different parts of the same country is known as *Home Trade*, so trade or exchange of goods between different countries or nations, is known as *Foreign* or *International Trade*.

FOREIGN TRADE IS DISTINGUISHED FROM HOME TRADE in (1) as much as *labour and capital do not move so freely* between different countries as within the same country. This immobility has been instrumental in maintaining the difference in the cost of production of goods between different countries. (2) Different countries have *different forms of currency*. The currency of one does not circulate

within the other. (3) In home trade *no restriction is put* on the movement of goods from one part of the country to another, but in foreign trade we often witness countries to levy heavy import duties on imports from foreign countries, and heavy export duties on exports to foreign countries.

Prof. Ghosh states that the "difference between home and foreign trade rests on (a) distance, (b) the immobility of labour and capital between countries and (c) the greater cost of transportation between them. *But these are differences of degree and not of kind.* Bombay imports coal from South Africa with greater ease than from Bengal. If there be any *real points of difference* between home and foreign trade, they seem to consist of political regulation (through tariff) of trade and the special monetary problems that obtain between home and foreign countries."

Theory of Comparative Cost.

Just as some individuals have greater aptitudes in producing certain things, so different countries have got different aptitudes in producing different things by reason of natural facilities, etc. This specialisation is mutually advantageous for countries and leads to international exchange. We import goods which we cannot produce at all or which we can produce at a comparative disadvantage, that is at a higher cost. We do more than that. Sometimes we even import with profit goods which we can produce at a lower cost at home. For example, England imports wheat from India which she can produce at a cheaper cost at home. The obvious reason is that she specialises in the production of cloth and devotes all her labour and capital to that industry instead of dividing it between production of wheat and manufacture of cloth, because in the production of the latter her

productive efficiency is *comparatively greater*. So she finds it economic to import wheat from India. Thus it follows that if a country can produce a thing at a comparative advantage than another country, then she should produce that commodity at home to the exclusion of others in which her comparative advantage of production is less.

Exports pay for imports.

A country pays for her imports by exports. Imports are generally goods which the country cannot produce at all, or can produce at a comparative disadvantage. Exports are, on the other hand, surplus goods in the production of which the country has comparative advantage. The exports consist not only of *visible exports*, i.e., merchandise, but also of *invisible exports*, i.e., payments received from foreign countries for various services rendered to them, such as services rendered by civil servants, administrators, bankers, shippers, insurance companies, etc.

No country can for an indefinite period import more than it exports, or can export more than it imports. Exports and imports must balance in the long run. Over a short period, there may be want of equilibrium. But this balance must be settled sooner or later by more exports and imports of merchandise, or by more import or export of gold. It is to be remembered that the balance of trade of a country is not settled by the balance between that country and another but between that country and the rest of the world.

Advantages of Foreign Trade.

(1) It enables a country to procure goods which it cannot produce at all. (2) It enables a country to procure goods from abroad which it can only produce at a comparative disadvantage, i.e., at a cost higher than that at which it can import. Pineapple can be grown in hot houses in England at the cost of a guinea each while it can be imported

from Singapore at the cost of a shilling. (3) During times of famines and strikes, food may be imported from foreign countries. (4) Foreign trade leads to specialization in that industry in which the country has comparative advantage and so leads to greater efficiency and to greater economies of production. (5) Intellectual and moral improvement result from direct communion between nations. (6) War may become obsolete as the result of the strengthening of the commercial interests of nations.

Disadvantages of Foreign Trade.

(1) Excessive specialization may lead to over-production. Manchester may manufacture more cloth than she can find market for. (2) It may intensify the operation of the law of diminishing returns, specially in agricultural countries, as has been the case with India. (3) It may exhaust the natural resources of a country, *e.g.*, the coal of England and the gold of the Kolar fields of India. (4) As the consumer is not always the best judge of his own interests, governments must sometimes restrict free imports of goods, *e.g.*, China has suppressed opium traffic through international agreement.

Balance of Trade: visible and invisible exports.

The *balance of trade* of a country may be determined by the *excess of exports over imports in merchandise*. But such a balance is never the true index of a country's economic position. England which is a very financially prosperous country imports every year a larger amount of merchandise than what she exports. So, to find out the correct balance of credit of a country we are to refer to the *balance of accounts*, that is to say, to take into account all possible items of debits and credits. Merchandise exports and imports are said to be *visible*, while some items, *e.g.*, payment of interests, bankers' commission, etc., by a foreign

country are said to be *invisible* because they are not recorded in the trade returns. In finding out the true balance of trade both these visible and invisible exports are to be taken into account. In addition to *visible* exports in merchandise, England's credit rests on a large number of *invisible exports*, *e.g.*, on freight income through her shipping, interest income from her foreign investments of capital, commission income earned by her bankers, payments received from India in the shape of Home Charges, remittances received from abroad for students residing in England, expenditure incurred in England by foreign tourists, etc.

II. Free Trade or Protection.

The terms defined.

Protection is *the policy of protecting* home industries by levying taxes on imports of foreign merchandise.

Free trade is *the principle* of allowing unrestricted trade among nations so that by intercourse among them each country may undertake to produce only those goods in which it has *comparative advantage* or efficiency of production.

It is to be remembered that levying of customs duties do not always mean imposition of protective duties. A free trade country may levy on an article even cent per cent duty, and if such a duty does not aim at *protecting* any home industry but are only levied to derive an income for the state, then such a duty is called *revenue* duty.

Arguments in favour of Protection.

NO ANTAGONISM BETWEEN FREE TRADE AND PROTECTION.—There is no natural antagonism between protection the *policy*, and free trade the *principle*. The policy is directed to attain that stage of productive efficiency when the principle may with profit be adopted.

We discuss below some of the most important arguments in favour of protection:—

(1) THE HOME MARKET ARGUMENT.—By the levy of heavy import duties foreign goods are to be kept out of the market at home. Home market is a surer market and is not in danger of being closed by war or lost by the capricious changes in tariffs by foreign governments.

(2) PROTECTION INCREASES WAGES.—By levying heavy protective duties, foreign imports *produced by cheap labour* are to be shut out. Thus protective duties may help domestic producers to sell their goods at remunerative prices and to *pay higher rates of wages* to their employees.

“But it is pointed out that the *manufacturers are more eager for larger profits than in paying higher rate of wages to their employees.* In some countries, again, *e.g., in America, protection is demanded because wages are high; in other countries, e.g., in Germany and Italy, because wages are low.*”

“*Higher wages goes with higher efficiency, so it does not imply higher cost and makes protection unnecessary.*”—Seligman.

(3) INFANT INDUSTRY ARGUMENT.—Some industries should be protected in their infant stages if they show sure signs of progress within a definite period of time. Without protection at the initial stage they may be killed by the unequal competition of long-established industries of foreign countries.

“The theory asserts that just as children need the fostering care of their parents during the period of infancy, so the feeble and newly started industries need be carefully protected during their years of weakness. It is conceded that this involves an expense, but it is claimed that *industries will more than pay for themselves when they reach maturity.* The competition among home producers will ultimately lower prices below the foreign level.”—Seligman.

(4) PRODUCTION CREATES EMPLOYMENT.—As protection fosters home industries, it gives steady employment to labour.

Arguments against Protection.

(1) *A protected industry seldom stands on its own legs.*—Not only a protected industry clamours for perpetual protection but helps to raise a chorus of clamour for protection from every possible industrial interests in the country.

(2) *Protection leads to misdirection of labour and capital.*—Protection may wrongly be given to industries which do not possess the conditions that lead to success. So it may involve much economic waste.

(3) *Protection may lead to a rise in the cost of production.*—If duties are levied on imports of food articles, machineries and raw materials, then the cost of production would rise and economic prosperity of the country would be retarded.

(4) *Home market may fail to consume the whole stock.*—Foreign markets are distant and precarious. They may be cut off by wars or by changes in the tariff policy adopted by foreign governments. Home-market is steadier, more secure and near at hand. Protection develops not only manufactures but agriculturists also find ready market for the raw materials and foodstuffs they produce. Today, however, production exceeds the capacity of the home market to consume. Foreign market is therefore sought after by both manufacturers and agriculturists.

(4) *Protection benefits the capitalist manufacturer only.*—None of the profits which accrue as the result of high prices go to the wage-earners.

(5) *Protection may lead to retaliation.* Foreign countries which suffer from the imposition of protective duties may avenge themselves by levying retaliatory duties. As a result the export trade of a protective country may suffer.

(6) *Protection fosters monopolies and trusts.*—As protective duties help to shut out foreign competition, home producers in order to eliminate competition and to charge very high prices may *combine* among themselves. So it is said, 'tariff is the mother of trusts.'

(7) *Protection may lead to corrupt practices.*—In a country where the policy of protection obtains, legislators are often approached and bribed by business magnates in order to secure protection for those industries in which they are interested.

(8) *The Government loses revenue or protection becomes nominal.*—If protective duties efficiently shut out foreign goods the government does not get any customs revenue. On the otherhand, if the government gets substantial revenue, protective duties must be said to have failed to achieve their object.

Case for Protection.

Though restriction, regulation and restraint of trade (*cf.* Mercantile doctrine) were considered in the seventeenth and eighteenth centuries to favour the growth of trade, we find now that when trade is free, productivity of nations increases and hence the prosperity of the world. Even in the eighteenth century many traders and capitalists found that unless trade was free they were not getting any share of its profits. Adam Smith first advocated free trade in Enland, and in France there arose the Laissez Faire School.

Free trade is to be advocated strongly but under certain circumstances protection may be desirable, e.g., when (1) infant industries cannot protect themselves, or for unfair dumping by foreign countries some industries are in danger of being wiped out; (2) protection is necessary for key industries; (3) when the resources of a nation are not finding full employment, protection may be resorted to, *e.g.,* India which is importing railway materials may be allowed to produce it at home with the help of protective tariff.

Evaluation of Free Trade and Protection.

Free trade promotes *competition and enterprise*, protection fosters *monopoly and causes a loss of initiative*. So, while the former encourages production and a fall in price, the latter discourages production and leads to a rise in price.

Free Trade thus *benefits the consumers and almost all classes of people*, while protection brings gain to the capitalist class.

Free Trade fosters *international amity* while protection leads to *international jealousy and hostility*.

The Principle or the Policy.

Free Trade is the principle.—It declares that every country is to produce only those goods in which it has comparative efficiency of production.

Protection is the policy.—When the productive energy of a particular country has not been fully developed, it ought to have recourse to a policy of temporary protection. England, America, Japan and other predominantly free trade countries of the world each had sometimes to resort to protection. But most of them have ultimately adopted free trade.

Before the last War almost all countries were consciously drifting towards free trade. But the War has killed the spirit of *economic internationalism*. Self-sufficiency and control over key industries seem to be the motto today. Almost all countries have drifted towards protection. (Read, *Discriminating Protection in Economic Problems of India*).

DISTRIBUTION.

CHAPTER XXI.

THE PROBLEM OF DISTRIBUTION.

I. The Problem of Distribution.

What is distribution?

"All wealth that is created in society ultimately finds its way to the individual producer through the payments of rent, interest, wages, salaries and profits. This process of payment of the respective shares of the individual producer is called DISTRIBUTION."

ITS IMPORTANCE SINCE THE INDUSTRIAL REVOLUTION.—

Adam Smith who wrote his *Wealth of Nations* before the Industrial Revolution (when the cottage system prevailed) made hardly any serious mention of the problem of *Distribution*, while Mill who wrote after the Revolution (when the cottage system was supplanted by the factory system) attached special importance to it.

What is there to distribute?

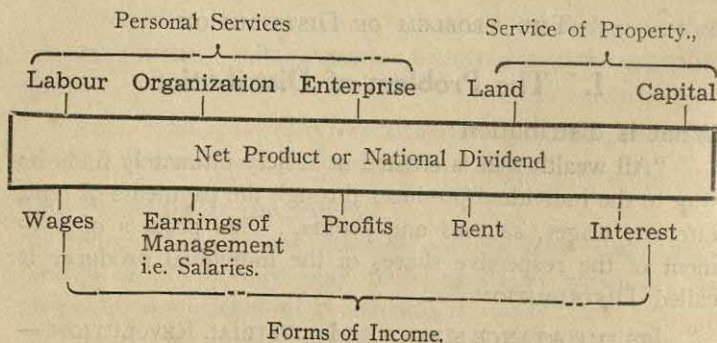
ONLY THAT CAN BE DISTRIBUTED WHICH HAS BEEN PRODUCED. *The amount which can be distributed as 'income' among those who have taken part in any industrial enterprise is the net product of that industry.*

A CONCRETE EXAMPLE.—Suppose, the Banga Luxmi Cotton Mills Ltd., has produced and sold its products for Rs. 20 lakhs in course of the year 1940. In the process of manufacture it has used raw materials, say valued at Rs. 15 lakhs. There has also been some wear and tear of the factory buildings, machineries, etc., which may be valued at Rs. 2 lakhs. This leaves a balance of Rs. 3 lakhs avail-

able for distribution among those who have contributed to the product. This balance may therefore be called the '*net product*' of the *Banga Luxmi Cotton Mills* for the year 1940.

II. Who produce the National Dividend?

FACTORS OF PRODUCTION AND THEIR REMUNERATION.



Shares in Distribution.

In distribution the labourer receives wages, the organizer gets salaries or earnings of management, the enterpriser his *profits*, the landlord his *rent* and the Capitalist his *interest*. The entrepreneur, now-a-days, acts in two roles, as *organiser* he brings to the business his organizing capacity and for that he is paid wages which is euphemistically called *earnings of management* or salaries, and as *enterpriser* he undertakes the risk of the business (on behalf of those who have entrusted their capital with him) and earns profits.

III. The Principle of Distribution.

(A). The business enterpriser's share in distribution.

The business organizer distributes the net product of an industry among the various factors of production. Due

to his superior knowledge and experience he can estimate almost correctly what the net product is likely to be in an industry. On that basis, he offers remuneration to the factors long before the product is completed and marketed. For this security of payment the factors offer to accept rates of remuneration which are lower than what are warranted by their respective productivity.

Thus profits seems to consist of the *sum-total of the remunerations which other factors forego* in favour of those who undertake the risk of the business.

(B) How the shares of other factors are determined.

Services, like commodities, *have a market price*, and the market price for services is determined like that of commodities by the interaction of the forces of demand and supply. The organizer does not fix the remuneration of any of the factor, he fixes only a *maximum* price for the services of each factor (measured by his demand) which he shall not exceed. On the other hand, the factors cannot also determine the price of their services, but they have a *minimum price* below which they would not ordinarily accept any remuneration. Between these two upper and lower limits the price of the service of each of the factor of production is determined by the operation of the forces of demand and supply.

CHAPTER XXII

RENT.

Prof. Marshall defines rent as the "the income derived from the ownership of land and other free gifts of nature."

Popularly, the term rent implies the periodic payments made for the use of farms, estates, business premises, dwelling houses, etc. *But the economist only calls that income rent which may be regarded as a payment for the use of land or other gifts of nature.*

How Rent emerges: Ricardo's theory.

Lands were originally free and could be appropriated by man according to his needs. Again, lands are of various grades of fertility. As population increases all the *first grade* lands are gradually being appropriated and brought under cultivation. So long as the first grade lands are not entirely appropriated, no question for *payment* (of rent) for the use of land arises. Men can have it by the mere act of appropriation. But as soon as all the first grade lands are appropriated and *second grade lands* of lower fertility are brought under cultivation, a *premium* arises at once for the first grade lands. It equals the difference between the productivity of the first and the second grade lands. The payment that is made for the use of the first grade land is called *rent*.

If the productivity of the first grade land is 8 mds. and of the second grade land is 6 mds. then the owner of the first grade land would get 2 mds. as rent when he lends its use to another. The second grade land could earn no rent at this stage, such lands being still available free. With the exhaustion of the supply of the second grade land, the third grade land would be brought under cultivation.

If it yields only 5 mds., then the second grade land would earn one maund of wheat as rent, and the first grade land as much as three maunds of wheat (8 mds.—5 mds.).* *As cultivation would proceed to lower and lower grades of land with every increase in population, the rate of rent would increase.*

Criticism of the Ricardian theory.

RICARDO defined rent *"as that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil."*

(1) *But it is not possible in an old country to find out the original powers of the soil.* In an old country like England, it is impossible to know how much of the produce is due to the "original and indestructible powers of the soil" and how much to application of labour and capital.

(2) *The powers of the soil are also not indestructible.* Unless the exhaustion is recouped properly by manuring, irrigation, and other mechanical or chemical means, natural recoupment, merely through the nitrification of the soil (that is, by the process of absorption of nitrogen from the air), cannot retain the fertility of land.

(3) *Ricardo refers to the emergence of rent from land alone and not from other gifts of nature, e.g., from mines, water-power, etc.*

Penson admits that it is difficult in modern times to distinguish between how much of rent is due to 'original and

* Prof. Marshall has said that rent refers to produce and not to price. But Prof. Ghosh states that *"any theory of rent is clearly wrong which attributes rent only to the natural fertility; rent depends equally upon the price of agricultural produce."* If a dose worth Rs. 6 produces 2 mds. of paddy on a third grade land which is a no-rent land, the land would remain uncultivated, if the price of a md. is only Rs. 2. But if the price rises to Rs. 3, then the third grade land would be brought under cultivation. So it may be said that "rent really depends on the value of productivity and not on natural fertility." Prof Ghosh points out that it is admitted by Ricardo "that the amount of rent is determined by the difference in value produced on a rent-paying land and on a no-rent land."

indestructible' properties of the soil and how much to investment of labour and capital.

But orthodox economists want to emphasize the distinction. They state that rent which results from 'original and indestructible' properties of the soil may be called *pure economic rent*, while rent which results from both 'original and indestructible' properties of the soil and also from improvements due to investment of labour and capital may be called *gross rent*.

Causes of Rent.

(1) *Limitation in the supply of good land*, according to Ricardo, is the cause of rent. But there would not have been any rent had it been possible for us to raise at a uniform rate per application of labour and capital an unlimited amount of produce from the limited area at our disposal. But it is impossible due to the *operation of the Law of Diminishing Returns*. (2) *Growth of population which increases the demand for products from land* is another cause of rent. It leads to cultivation of lower and inferior grades of land.

Economic Rent

When an owner of land cultivates his own land, the income which he derives after making allowances for all the expenses of production may be called *economic rent*.

The rent which an owner derives by letting out his land to a tenant is called *contract rent*. This is necessarily smaller in amount than the economic rent. The tenant appropriates to himself the full economic rent and out of that he pays the *stipulated* annual sum to the landlord for retaining the use of land.

HOW TO FIND OUT THE ECONOMIC RENT.

Take a plot of land of average fertility. Suppose it yields 100 mds. of paddy, worth Rs. 200, on application of a certain amount of labour and capital. Now if a tenant borrows the use of such a plot of land from a landlord, *how*

much is he to pay as economic rent? The price paid for the use of land tends to approximate to the producer's surplus, i.e., what surplus is left to the producer after meeting necessary expenses of cultivation. This is, in other words, called *economic rent*. To find out the economic rent, from the total or gross value of the produce (Rs. 200), he is to deduct (a) the 'expenses of cultivation' including the charges for 'replacement of capital', such as depreciation charges for plough, cattle etc., (say, Rs. $80+20=100$), (b) the cost of marketing, i.e., the cost of sending the produce to the market (say, Rs. 20)—the cost varying as the market is nearer or more distant from the centre of production, and (c) the income for farmer, i.e., allowances that should be paid for the farmer's own labour (say, Rs. 60). The balance of Rs. 20 that remains i.e., $Rs. 200-180 (100+20+60)=Rs. 20$, may be said to be the *producer's surplus* or *economic rent*, i.e., the surplus which remains after all the expenses of cultivation including the remuneration of the farmer have been paid. As this surplus arises out of the productivity of land, it goes to the landlord as his legitimate share for ownership of the soil.

Contract Rent: How it is determined?

Contract rent is that stipulated amount which the tenant agrees to pay to the landlord for the use of land as the result of a contract. Contract rent is determined in the same way as the price of a commodity by the interaction of the forces of demand and supply.

DEMAND FOR THE USE OF LAND.—A farmer wants to secure the supply of land because of its productivity. This leads him to a *maximum offer* above which he would never bid. This maximum which is determined by his need for land in an extreme case may amount to the full economic

rent. By higgling and bargaining he always attempts to pay as much less than the maximum as possible.

SUPPLY OF THE USE OF LAND.—A landlord who does not wish to cultivate his own land would let it out to a farmer for rent. He has his estimate of *minimum* charge or rent below which he will not accept. (This minimum is determined by the product which the landlord is expected to derive by cultivating the land himself).

Thus there is a *maximum* limit of offer beyond which the farmers would never bid, and a *minimum* charge below which the landlords would never accept. *Between these two limits the contract rent would be fixed* by the higgling and bargaining among farmers and landlords and the rate of rent would be high or low according as the intensity of demand for land is great or small and the supply of land is large or scanty.

HOW THE AMOUNT OF RENT IS DETERMINED.

The amount of rent is determined by three factors: (1) the *natural fertility of land*, (2) the market *price of the produce*, and (3) the *intensity of cultivation*. Fertile lands get higher rent; with rise in price of agricultural produce no-rent land which was hitherto lying uncultivated would be brought under the plough and would raise the rate of rent of superior grades; demand for more produce would lead to additional investment of land and labour on the self-same plots of land and to production under the law of diminishing returns (increasing cost).

RENT IN AN OLD AND IN A NEW COUNTRY.

It is to be noted that the supply of land being fixed, its demand in old countries is disproportionately greater than its supply due to *steady increase in population*. So the price (i.e., rent) that may be paid for its use tends to approximate

to the producer's surplus, i.e., to the economic rent. India is a case in point. On the other hand, in a country where population is not growing fast and the export trade does not lead to intensive cultivation necessitating production under the law of diminishing returns, the rate of rent moves towards the minimum. But to the credit of the landlords it might be said that though they often intend to charge the maximum, they seldom insist on the pound of flesh.

MAXIMUM ECONOMIC RENT IS SELDOM CHARGED.

—"From considerations of custom or sentiment, or from absence of practical knowledge and bargaining skill on the part of the landlord, farms are often let at rents below those which could be obtained under conditions of ordinary competition."—Penson.

No Economic Rent is charged in India.

In India, except in the permanently settled tracts, all lands belong to the government and the latter stands in the position of a monopolist. The density of population having reached its maximum in most of the provinces, the government might have charged the full economic rent. But through the promulgation of the Saharanpur Rule of 1855, it charges only half the economic rent and foregoes the other half on behalf of the ryots.

Factors that 'raise' or 'lower' the rate of Rent.

In a new country where the supply of better land is practically unlimited, the rate of rent is nil or very low.

INCREASE OF POPULATION AND EXPORT OF AGRICULTURAL PRODUCT lead to the cultivation of lower grades of land, so they help the rise in the rate of rent.

ECONOMIC PROGRESS, such as the improvement in transport, introduction of improved methods of cultivation, etc., would result in a tendency for a fall in rent.

Rent and price of land.

The relation between rent and the price of land varies greatly. In countries where the accumulation of capital is large, where security of property is great and where landlordship carries with it social or political distinction, there the price of land may be many

times the multiple of the annual rental than in other countries where all the above conditions do not exist.

Rent and price of agricultural produce.

Different qualities of land yield different amounts of produce even on application of equal amount of labour and capital. For differences in fertility they pay different rates of rent. But for the same quality of produce there is one price irrespective of the quality of land on which it is raised, or the amount of rent which it pays. Price of agricultural produce is determined by demand and supply. *So rent has nothing to do with the price of agricultural produce.*

Quasi-rent.

Prof. Chapman defines quasi-rent as a "differential advantage in production (other than in agriculture) which can be increased deliberately, though not to a substantial extent for a long time."

NATURE OF QUASI-RENT.—People who use *up-to-date* and *improved machines* secure a differential or special advantage over their rivals who use old ones. So long as the best machines are few a differential advantage accrues to the users of such machines, but in the long period it disappears. Rent proper is a permanent phenomenon, but quasi-rent is a temporary phenomenon.

Unearned Increment.

When the market value of land increases due to social progress, or improvement of the environment, the owners of land having contributed nothing to earn it, the increase in value goes by the name of "unearned increment of land."

There occurs an unearned increment in the value of land when there is a growth of town in the neighbourhood, an opening of a railway or other communications, a rapid growth of population, or growth of industries in the neighbourhood, etc.

CHAPTER XXIII

WAGES.

I. Labour and its remuneration.

Definition.

Wages may be defined as *the prices paid for the services of labour.*

Classification of labour.

Mill classsified labour into the following four industrial grades :—

(1) *Liberal professions*, (i.e., the callings of professors, doctors, lawyers, engineers, etc.). (2) *Highly skilled manual labour*, e.g., skilled artizans, tradespeople, etc. (3) *Lowly skilled labour*, such as fitters or *mistries*, etc. (4) *Unskilled labourers*.

Wages payment.

When the labourer gets a fixed payment for a given unit of time, say per hour, or day, or week, or by month, the wages is known as *Time Wages*. When wages are paid according to the amount of work done, it is called *Piece Wages*.

Wages of skilled labour.

The Trade Union movement has increased the bargaining power of labour and they are today in a position to secure higher wages. The rate of wages of skilled labour is now fixed not by individual bargaining but by collective bargaining between the Association of Employers and the Trade Union officials.

Wages of Unskilled labour.

Trade unions have hitherto failed to organize the great mass of *unskilled labourers*. As their work can be done by

any, the market for such labour is always over-stocked and so the wages earned cannot but be small.

When labour is really cheap.

To the employer, labour is cheap or dear not according to the rate of high or low wages he has to pay but according to the product he realises in exchange for the wages he pays. If highly paid labour return a correspondingly large and even a larger amount of product, high wages instead of being a handicap is a boon, while low wages with a disproportionately smaller amount of return is a positive handicap. It is a universal experience that highly paid labour is always *paying* to the employer. As a consequence during depression in trade low-paid labourers are dismissed while highly paid men are retained.

II. Nominal and Real Wages.

Nominal and Real wages defined.

Nominal wages are the amount of *money wages* which a wage-earner receives.

Real wages are "the remuneration of the labourer as reckoned in the necessities, comforts and luxuries of life." In short, it means the amount of food, clothing, shelter and enjoyment that the money wages can purchase. Real wages depend on the general price level. If prices rise but the wages do not rise proportionately, the labourer may be said to be worse off than before and the real wages may be said to have fallen.

• Higher money wage in a trade is not always a correct index of higher real wages. The following circumstances are to be taken into consideration in estimating the amount of real wages in a trade.

(1) *Regularity of employment.*—In some trades, e.g., in brick-laying trade, the rate of money wages is higher than in other trades which require equal skill and exertions. But the brick-layers find employment for only six months in the year. Thus though their money wages is high, the real wages calculated over the whole year is rather low.

(2) *Uncertainty of success.*—In the legal profession where many lose and few win, the income of the successful few are extraordinarily high. This tempts enterprising youngmen to join the profession. But if we take the average income of those who win as well as of those who lose, the profession would register a very low average rate of income.

(3) *Disagreeable and dangerous occupation.*—An engine-driver has to retire compulsorily from service in course of twelve or fifteen years, as the occupation undermines one's health prematurely. Naturally, he must be paid a higher rate of money wages. Yet inspite of a higher rate of money wages, the total amount of wages (real) earned by him during his whole career is comparatively smaller.

(4) *Cost of training.*—An attorney-at-law earns much more than a vakil. But if we take into account the expenses which the former incurs upon his education and training as also the recurring expenses which he must bear on account of his office establishment, we cannot but agree that his real income is not as high as money income appears to be.

(5) *Supplementary earnings.*—In some trades the money income seems to be too low. But the trades allow opportunities for supplementary earnings not only to the labourer himself but also to the other members of his family. This tempts labour to join these lowly-paid trades. "The earnings of the wife and children of many a Manchester weaver exceed or equal those of himself."

OTHER FACTORS TO BE NOTICED.

(a) *Changes in the purchasing power of money.*—When the purchasing power of money increases, the real wages increases as more goods can be purchased in exchange for money.

(b) *Supplementary payment.*—When a labourer is given in addition to his money wages, free quarters or the free use of fuel etc., his real wages may be said to have increased.

(c) *Higher cost of living in towns.* Though workmen in towns are paid a higher rate of wages, it does not enable them to live a better standard of life because the cost of living in the towns is high.

SOME PECULIARITIES OF LABOUR.

Unlike other commodities, (1) *labour is perishable.* If the labourer remains out of work, his labour is lost for good. (2) *The producer of labour is not remunerated for his cost of production* unlike the producer of other commodities. The parents who rear up children do not expect to be requitted for their sacrifices. So the supply of efficient labour in a country depends upon the 'means, foresight and unselfishness of parents.' (3) *The seller of labour has to deliver it himself however insanitary or dangerous the place may be.* (4) *The labourers being poor cannot bargain on equal terms with their employers.* (5) *The supply of labour cannot be immediately adjusted to demand.* Some time must elapse before a child grows into manhood.

III. Demand and Supply of Labour.

The interaction of the forces of demand and supply for labour determines the rate of wages.

The Demand for Labour.

The demand for labour depends on the wage asked.*

* When an employer employs a labourer, he calculates his gain by ascertaining what he has to pay as wages and what net product the employee would contribute. The amount of product which the last or marginal labourer employed contributes is called the MARGINAL PRODUCT OF LABOUR and wages are not expected to exceed the value of the amount of that labour.

The demand for labour is dependent on the profit-yielding power of a business. Profit again depends upon, (a) productive efficiency of both employers and employees, and (b) the market price.

The Supply of Labour.

The supply of labour means the number of qualified persons who are willing to do the work at a certain rate of wages. Thus the supply of labour cannot be considered apart from its price. *In the long run the supply of labour varies with the price that can be obtained for its services. Wages below a minimum may stop the supply altogether. Wages higher than the maximum may induce outsiders to join that particular trade and thus add to the supply.*

STANDARD OF LIFE AND WAGES.

We have seen that there is a minimum rate of wages below which the labourers cannot accept. *That minimum is determined by the standard of life of a worker. The standard of life is a measurement of the sacrifice, (i.e., the cost of production) undergone by the worker in order to bring up a family.* The higher the standard of life, the higher must be the rate of wages to induce an increased supply of labour.

IV. How wages are determined.

THE UPPER AND LOWER LIMITS OF WAGES.

There is a close resemblance between the determination of wages of labour and determination of price.

There is a *maximum rate of wages* which the employer would never exceed. He fixes this rate on the basis of the productivity of the employees.

On the other hand, the Trade Unions which bargain on behalf of labour fix the *minimum* on the following considerations:—(1) The maintenance of a certain standard of

comfort; (2) the comfortable or uncomfortable character of the occupation; (3) the time and money required in acquiring the necessary skill (*i.e.*, the cost of training).

The rate of wages oscillates between the said maximum and the minimum rates. The actual wages will be nearer the higher or the lower limit, according as the competition among employers or employees is the keener.

If the labourer's minimum is higher than the employer's maximum, no labour will be employed. If the labourer's minimum is less than the employer's maximum, the ultimate rate of wages will be finally determined on the relative intensity of demand for labour and on the bargaining strength of the two opposite parties.

Penson thus concludes his theory of wages:—
“Wages are paid because work is done.”

The value of the service (*i.e.*, wages) depends on the value of the product, and the value of the product is measured not by the amount of labour expended on it, but by the price that people in general are willing to pay for it.

Causes of the inequality of wages.

It is pointed out that differences in inborn talent and ability cause differences in wages. But that is not the most potent cause. The inequality of opportunity is perhaps the more potent cause of the inequality. “The opportunity of entering a profession or a trade is often artificially limited. Till lately higher grade Indian public servants were recruited in England. In the case of learned professions, such as law, medicine, engineering, etc., an expensive education or a high initial premium or both restrict entrance to them. To do away with this inequality equal opportunities of education should be extended to one and all.”

IV. Some theories about Wages.

The Subsistence theory of Wages.

The theory assumes that competition is very keen among labourers only and not among employers. So wages tend to coincide with the minimum necessary to maintain a labourer. The socialists have nicknamed this theory as the Iron Law of Wages. The defect of the theory is that it only takes notice of the supply side of labour and not of the demand side. The theory is too pessimistic.

The theory, however, does not apply to modern conditions in as much as competition among labourers have today been restricted by Trade Unions, and wages is being fixed by it according to the standard of living prevailing among different classes of labour.

The Marginal Productivity theory.

The additional product an entrepreneur obtains from employing an additional unit of labour, is called the *marginal product*. Wages are paid according to this marginal product.

The Neo-classical theory.

The upholders of the classical school, who are now called neo-classical economists, hold that 'wages are determined like any other price by demand and supply.' The demand refers to the marginal product of labour and supply to the standard of living of labourers, i.e., wages are determined on the one hand by the productivity (marginal) of labour, and by the standard of living of labourers, on the other.

The Wages Fund theory.

Wages depend upon the proportion between population and capital in a country. So long as the population and capital remain stationary, wages cannot rise. If wages in one trade is raised artificially, wages in other trades would diminish.

But the entire population do not work, nor the capital of a country is a fixed stock. *It is a flow rather than a fixed fund.* There cannot also be a separate fund ear-marked for wages.

Though the theory is erroneous, it emphasises the facts (1) that capital does influence wages i.e., increase of capital increases wages by increasing the worker's efficiency, and (2) that with the increase of aggregate national income the rate of wages increases.

CHAPTER XXIX

Problems of Labour.

Some problems of labour.

We may thus enumerate the various problems connected with labour.

1. **Poor Laws.** They are legislative efforts to supply the old and decrepit poor with food and shelter.

2. **Factory Acts.** They are legislative measures to protect labour from physical dangers as well as from excessive hours of works.

3. **Trade Unions.** Through them labourers attempt to bargain collectively with employers.

4. **Co-operation.** *Co-operative production* wants to get rid of the capitalist employer, *co-operative consumption* aims at supplying cheaper and unadulterated food by replacing the ordinary retail dealer, and *co-operative credit* aims to replace the usurer and to make money cheap.

5. **Agencies for industrial peace.** These are remedial devices designed to bring amity between labour and capital.

I. Labour Legislation and Labour Hours.

Labour legislation in England became a necessity to ameliorate the conditions of labour in the early years of the nineteenth century. Factory acts provide for the following remedies:—

(1) *Restriction of the hours of work.*—Factory Acts restrict the hours of labour of adults, both male and female, and of children. *Eight-hour day is almost the rule to-day.*

(2) *Regulation of the conditions of employment.* Factory Acts provide for the fencing of dangerous machinery, for proper ventilation and sanitation of the factory buildings, etc. It also stipulates for the compulsory education of children employed in the factories.

FACTORY LEGISLATION IN INDIA.—Factory Acts were passed in 1881, 1891, 1911 and in 1922, the main provisions of which are as follows:—(1) It has introduced sixty-hour labour per week; (2) has raised the minimum age of children working in the factory from 9 to 12 years; (3) has defined all undertakings as factories which employ more than 50 heads; (4) and has provided for complete prohibition of night work for women.

II. Trade Unions and Co-operative Societies.

A. Trade Unions.

"A Trade Union", says Sydney Webb, "is a continuous association of wage-earners for the purpose of maintaining or improving the conditions of their employment."

Labour's inability to bargain with Capital.

The labourer under ordinary circumstances is at a disadvantage to bargain, for

(1) *Labour is perishable.*—The labourer must either work under the proffered conditions or lose his day's labour. "The supply of labour, like the supply of sunshine, comes afresh every day. If it cannot be utilised to-day, it is lost, and lost for ever."

(2) *Labourers are not well-informed as to the best market* where they can advantageously sell their labour.

(3) *The employers can bind them to work for a long period at a fixed rate of wages by advancing it occasionally.*

(4) *The employers can bargain with advantage.* They are rich while the labourers are poor and cannot hold out for long. Moreover the supply of labour cannot be adjusted to fluctuations in demand.

Thus the labourers acting individually are hopelessly incapable to bargain for themselves to the best advantage. But if they can organize themselves to the best advantage through Trade Union they "can improve their condition and the rate of wages as also the conditions of employment."

Three fundamental ideas of the Trade Union movement.

(1) That the workers have the *right to combine to secure their best interests.* (2) A union is a *voluntary association* for deriving advantages through collective action.

(3) That workers of each *particular skilled trade* are to combine to the exclusion of others.

Working of a Union.

A large Union is sub-divided into several local unions and is controlled by central council. The executive of the central council is composed of shrewed, far-seeing men, resolute but with great self-control. They decide questions with cool and unruffled temper. They sanction the spending of any amount of money in a trade dispute.

The Secretary of the Central Council almost always acts as the spokesman of the central executive.

The bigger unions provide for its members, sick, accident, old age and funeral benefits and give "out of work" labourers pecuniary help for a specified number of weeks.

Three aspects of Trade Union activity.

Trade Union activities may be classified as *fraternal*, *militant* and *political*.

1. **Fraternal.**—As a fraternal organization, the Unions seek to insure members against accident, to support them during illness or when out of work, or during old age, and to help to educate them by lectures and meetings. Formerly, the unions used to render these mutual benefits out of their own funds. Now-a-days, the state undertakes most of these functions.

OLD vs. NEW.—The supporters of *New Unionism* advocate that Unions should be "fighting machines," and should not be encumbered with any sick or any accident fund, while the upholders of *Old Unionism* hold that the provident benefits offered by trade unions "constitute its chief glory". The 'New Unionists' believe that by influencing public opinion and by controlling legislatures they can improve the position of labour better than by providing mere provident benefits.

2. **Militant.**—On the militant side the work of the Trade Unions consists in collective bargaining of which the

leading features are the standardisation* of wages and the regulation of the conditions of employment, restriction of the supply of labour in particular industries, and strikes and boycotts.

3. **Political.**—In every country to-day labour is attempting to capture the legislature. The attempt seems to be signally successful.

Penson's views.

Unions should attempt (1) to secure *the highest rate of wages which the industry can bear*; (2) to *reduce the hours of labour* with a view to prevent overstrain and to give opportunities for recreation, intellectual improvement, social intercourse, and discharge of civic responsibilities; (3) *to secure healthy, safe and pleasant conditions of work*; (4) *to defend individual labourers against injustice or ill treatment and wrongful dismissal*; (5) and to *secure continuity of employment*.

Objects of Trade Unions.

PENSON THUS SUMS UP THE OBJECTS OF TRADE UNIONS:

"To promote in every possible way the economic interests of their members, recognizing that it is through improving economic conditions that the Standard of Living can be raised and that men and women are enabled to live better fuller and more useful lives".*

Weapons of Trade Unions.

Trade Unions generally adopt two methods of action†

* It means the fixing of a standard rate of wages below which the members of a Trade Union are not to accept under any circumstances.

* Prof. Ghosh similarly says that the object of a Trade Union "is to improve by all practicable means the economic condition of their members and to raise their standard of living."

† Penson says that in addition to (1) Government legislation, the

to achieve their objects. The one is the *standardization* of the rate of wages and the other is the *recourse to strikes* or threatening to strike when employers do not pay heed to their legitimate demand.

1. **The Standard Rate.**—Though much may be said against a fixed *minimum rate of wages* for all employees in a particular trade, whether efficient or inefficient, for the sake of expediency it is, however, the best alternative to be adopted. It ensures to each labourer at least a fixed minimum.

2. **Strikes.**—An organised suspension of work possesses all the disadvantages of war. Strikes are a destructive and not a creative agency.

"A strike brings *hardship and loss* to the strikers and *depletes the funds* of the unions, while on the other side, the stoppage of work *diminishes production* and often *inflicts serious injury* on the *workers* in other *industries*, and on the *public* generally. It is recognized however, that the right to strike is a weapon which the unions must have in reserve, but it should only be used when everything else has failed and when the justice and urgency of the cause really want it."*

Strikes often bring a deadlock in industries and *help foreign competitors* to gain ground. Moreover, the *loss of wages* suffered during a strike (say, extending over 30 weeks) takes a very long time (five years) to recoup, and in case the strike fails, the wages are lost for good.

two other methods by which Trade Unions secure their objects are, (1) Negotiations, and (2) Strikes. Strike is today the last resort when all negotiations fail.

* Penson, *Economics of Everyday Life*, Vol. II, Chapter IX, p. 96.

Trade Unions and Wages.

Trade Unions have beneficially affected wages in the following manner:—

1. *Unions have made 'economic friction' side with the workmen instead of acting against them.* Formerly, while the employers could bargain with their employees, the latter could not. As isolated individuals they were powerless against the relentless operation of economic laws. But today Trade Unions act on their behalf and have removed their economic helplessness.

2. *Trade Unions have increased the general efficiency of labourers and have thereby helped them to earn a higher rate of wages.*

3. By insisting on a *standard rate of wages*, the Trade Unions have improved the standard of living of the workers and have thus *helped the growth of a superior class of working men.* A low rate of wages involves a low standard of living, which is detrimental to the efficiency of labour.

4. Some believe that Trade Unions *by limiting the number of membership* of a Trade Union can artificially raise the rate of wages. But refusal to admit members may lead to the creation of rival unions. So it is wrong to believe that Trade Unions can raise *even temporarily*, not to speak of *permanently*, the rate of wages in a *particular trade* by artificially limiting the supply of labour. It is simply impossible to raise wages in all trades by limiting the supply of labour.

B. Co-operative Societies.

Co-operative societies may be of three types:—

1. **Association of Consumers.**
2. **Association of Producers.**
3. **Association for lending credit.**

Co-operative production on a large-scale has not yet been successful anywhere. This is mainly due to the ignorance of labourers, the absence of managing capacity among them and their mutual jealousies. They are very suspicious and would not brook any differences of wages among themselves however much they may differ in knowledge and efficiency. *Industrial democracy is still a dream.* The time when workmen would supply all the capital and all the management that make for success in big enterprises, seems to be remote.*

Co-operative credit has been a unique success everywhere. We propose to deal with the problem with special reference to India later on. (*Indian Economic Problems*).

Co-operative Associations of Consumers, i.e., distributive co-operation, have also been very successful. The Rochdale Store is a classic example.

The Rochdale Store.*

Originally there belonged to this association of consumers only 28 members. To do away with the disadvantages of exorbitant prices and of adulterated food, these 28 workingmen of Rochdale decided in 1814 to buy certain general articles of consumption wholesale and to retail that among themselves at market prices. For financing the store they decided to raise a capital of £28 by a weekly subscription of 2d. each. However, by 1860 (i.e., in about half a century) the capital rose from £28 to £37,000 and profits from £32 to £16,000.

The objects of the organisation included the opening of a general store, the building of houses for members, a temperance hotel, the acquisition of land on which members could be employed when out of work, etc.

The success of the scheme was largely due to the methods which were adopted to conduct the business. The methods were:—

(1) No underselling of other retailers. The profit of a member is to accrue on the amount of his annual purchases.

* Penson—Vol. II, Chap. X, pp. 98-104.

(2) The profit was allowed to be reinvested or withdrawn according to the option of a member. Thrift was the outcome.

(3) All buying and selling was for cash. It thus checked improvident purchase.

(4) The store was a kind of miniature democracy. The members formed the governing body.

(5) Two-half per cent of the profit was devoted to educational purposes.

"From what has been said it is now easy to understand what an important part co-operative societies play in the matter of spending the income."

III. Some Agencies for Industrial Peace.

To assuage the growing conflict between labour and capital, the following devices have been proposed and even sometimes adopted in many countries:—

1. **PROFIT-SHARING.** This is a scheme which proposes the distribution of a percentage of the net profits among the labourers. The purpose is to promote good feeling between master and servant and to give an incentive to the labourers to work honestly and efficiently.

The scheme is not successful. The labourers grumble for the smallness of the reward. The employers are, however, unwilling to forego any larger percentage of the profits in as much as the labourers would never agree to share their losses in bad years.

2. **WELFARE ARRANGEMENTS.** Capitalist employers, as an expression of their feeling of sympathy towards their employees, make such welfare arrangements as the opening of schools and libraries for the labourers and their children; of gardens, play-grounds, and club rooms for recreation; of pension plans and mutual aid societies, etc. Some employers provide for cheaper sanitary dwellings, free or cheaper means of transportation, free or cheaper fuel, etc.

3. **PAYMENT ON A SLIDING SCALE.** It is proposed that according as the price of the product rises or falls in the market, the rate of wages should be raised or lowered. The scheme is too theoretical and has many defects.

4. **ARBITRATION BOARDS.** To settle disputes amicably between the employer and the employees arbitration boards are employed. Such boards may be private or public, sporadic or permanent, recommendatory in its findings and decisions, or compulsory.

CHAPTER XXV

INTEREST AND PROFITS

I. Definition and history of Interest.

Interest defined.

WALKER defines interest "as the compensation paid for the use of capital, being borrowed not necessarily in the form of money." When a man foregoes the present use of capital for future use, he undoubtedly undergoes some privation or sacrifice. Moreover, the money which he lends to-day may not be able, when it is paid back, to purchase as much goods as before. The lender may also die. So he charges some compensation for lending the present use of capital. It is called interest.

HISTORY OF INTEREST.

In ancient times loans were often made on harsh conditions and non-payment often led to slavery and imprisonment. So with the rise of the Christian Church, interest was forbidden by both Civic and Canon Law. Moreover, men borrowed money in those days not for productive but for consumptive purposes. So prohibition of interest was justified.

With the expansion of trade and industries the sentiment changed. Laws prohibiting interest were found to restrict the supply of loanable capital. In modern times it is not the poor who borrow the largest but it is the business managers who borrow, rather from the comparatively poor (through the sale of shares of joint-stock companies), huge sums which help to finance the productive effort of a country. Prohibition of interest to-day would mean stoppage of the supply of capital. So it is desirable that capital should earn a reasonable rate of interest but should not exceed a maximum rate.

II. The Demand and Supply of Capital.

The interaction of the forces of demand and supply of capital influences borrowers and lenders in a way which results in a price for the service of capital—the *rate of interest*.

The Demand for Capital.

We find that (1) *capital will be borrowed* when there is an advantage to be gained (*i.e.*, a higher percentage of yield is expected over the current rate of interest). (2) Again, the *amount of capital that may be borrowed depends* on the current rate of interest. The lower the rate, generally the larger is the demand. Capital will be withdrawn from investment when its productivity is found lower than the market rate of interest.

The Supply of Capital.

The inducement to supply capital arises out of two facts, (1) *the rate of interest offered* and (2) *the security of capital*. The higher the rate of interest, the larger the supply of capital. The lower the rate, the smaller the supply.

III. How the Rate of Interest is determined.

Suppose, when the current (bazar) rate of interest is 5 per cent., but the yielding power of industries is not high, the demand for capital would amount to only 1 lakh while the supply would rise to Rs. 2 lakhs. On the otherhand, if the rate be 4 per cent., the demand would amount to Rs. 2 lakhs and supply to only Rs. 1 lakh. Thus the rate at which there would be an equilibrium between demand and supply must be between 5 and 4 per cent., say, $4\frac{1}{2}$ per cent., a rate at which both demand and supply would aggregate to about Rs. $1\frac{1}{2}$ lakhs.

Demand Rs.	Rate of interest	Supply Rs.
100,000	5 per cent	200,000
200,000	4 " "	100,000
150,000	4½ " "	150,000

The productivity of industries determines the *maximum rate* which industrialists would offer to secure capital, while the sacrifices undergone by the savers of capital would determine the *minimum rate* at which capital will be offered for investment. The rate of interest would move between this maximum and minimum according to variations in demand and supply of capital. Risk is an element which affects materially the rate of interest.

REMARKS—In every country the rate of interest would be determined in the *short period* by demand and supply of capital. In the *long period*, the supply would be influenced by external conditions. But the movement of capital between countries is limited. *The rate of interest cannot fall below a certain minimum*, otherwise the supply and accumulation of capital would fall. Risk is an important element in the determination of interest. The character of the risk affects both the rate the borrower is willing to give and the rate that the lender is willing to take.

Some Theories about Interest

(1) The Productivity theory.

The theory explains how interest '*could be paid.*' Where loans of capital are for production purposes and which increase the productivity of labour, interest could be paid out of the additional wealth produced. "*The productivity of capital explains the possibility of payment, but not the justifiability of its exaction.*"

(2) The Socialistic theory.

The Socialists point out that capital is the product of labour. So what capital produces should all go to the labourers and not to the capitalists in the shape of interest. Karl Marx said that interest is exploitation of labour. Though there may be much truth in

the argument, the inference that the resulting income from capital should all go to labour is wrong. For example, should a labourer who builds a house out of his own saving be debarred from enjoying it at his old age because he is no longer a labourer but a capitalist? He has sown as a labourer, and no doubt he should reap as a capitalist. The claim of capital upon the produce of labour is really based upon waiting—upon the choice of a future enjoyment in exchange for the present.

JUSTIFICATION OF INTEREST. Production takes time. Capitalists advance food, clothing, etc., to labour in the meantime and the latter in exchange surrender the products of their labour to the capitalist. So for present goods future goods are surrendered by labour to capital, and the latter secures a legitimate right over them.

(3) The Agio theory.

It is also known as Austrian or Bohm-Bawerk's theory of interest. The theory states that when a lender forgoes present goods for future ones, he shall demand more as the latter is less valuable than the former. "This preference of the people for the present over the future goods constitutes the basis of interest, according to Bohm-Bawerk." This *time-preference theory of interest* seems to be an improvement over the productivity theory.

(4) Neo-classical theory of Interest.

The classical economists point out that *capital is obtained by saving which involves a sacrifice*, like the foregoing of present enjoyment for a future one. Interest is nothing but the compensation for waiting.

The theory is faulty.

(5) Keynes' Theory of Interest.

"Interest", according to Mr. Keynes, "is the reward to a capitalist for parting with his liquid control over cash. It is the price that has to be offered to induce people not to hoard."

People have an innate tendency to keep with them liquid or loose cash, which Mr. Keynes calls 'liquidity preference'. Both rich and poor, particularly the latter, always hold liquid cash to meet emergency, or unforeseen expenditure or for profitable expenditure. It is also the case with businessmen.

In this way there is always a demand for cash money. But the supply of money for thus being held in hoards is necessarily limited.

To induce men to part with this hoard or liquid cash, payment has to be made—this payment is *interest*. "*The actual rate of interest is thus determined by the public demand for cash, i.e., people's liquidity-preference on the one hand and the supply of cash, i.e., quantity of money available, on the other.* The quantity of money let us remember, is regulated by the monetary policy of the money authorities and can be changed at their option. The rate of interest thus depends both upon the savers' psychology and upon the monetary policy at any given time."

IV. Interest and the Growth of Capital

The higher the rate, the greater the saving.—One who lends money foregoes its present use. Such abstinence or waiting requires remuneration. It is called *interest*. The higher the rate of interest the more people would postpone their present consumption of capital and would *save* it for future investment. The lower the rate the less is the inducement to forego present enjoyment and to save it for future use.

The higher the rate, the lesser the production of wealth.—Sir Josiah Child states on the contrary that "in countries where the rate is high, *merchants who have gotten great wealth, leave trading and take to money-lending*, the profits from which are so easy, certain and great : whereas in countries where interest is at a lower rate, they continue merchants from generation to generation, and enrich themselves and the State."

The lower the rate, the greater the saving.—On the otherhand, Mr. Sargant states that those who want to provide a future income for others save more if the rate of interest is low than when it is high. When the rate of interest is 5 per cent., to provide an annual income of Rs. 400, they shall have to save Rs. 8,000; when it is 4 per cent., they shall have to save only Rs. 10,000.

Conclusion.—But for all that "*it is a nearly universal rule that a rise in the rate of interest increases the desire to save ; and it often increases the power to save.*"

V. Gross and Net Interest.

Gross Interest.

It is composed of three elements:—

(1) *The reward for waiting, i.e., the rate of net interest which the banks pay.* "The price proper for the loan of

money, for parting with the lender's control over it for a time, is called Pure Interest."

(2) *The insurance again risk.* Some investments being *hazardous* nobody would invest money in them unless the rate is high enough to insure the investor against possible losses. Moreover, in all trades there is more or less the element of *trade risk*. There is another reason for a higher rate of interest, viz., *personal risk*. The rate of interest depends upon the borrower's "moral character, his business competence and his credit capacity, i.e., the value of his private assets."

(3) *The earnings of management.* Some investments entail considerable management (which may not be to the taste of many investors) to realise the principal. In such cases, the rate of interest should be high enough to pay for the troubles of management. For example, in most cases of loans that are given on the mortgage of small landed properties in our villages, the process of realisation is very troublesome and vexatious. So the rate of interest must necessarily be high.

A typical example.

We seem to be surprised when a Kabuli money-lender charges a very high rate, say 200 per cent. on the capital he lends to a labourer in an Indian village. But if we carefully analyse the case we find nothing unique in it. The Kabuli lends to people unknown to him and also who have no credit with any money-lender of their own village. So he runs the double risk,—some of his debtors may be unable to repay him, while many may give him a slip. Again, if the debtor dies, it becomes a bad debt. In addition to these triple risks, he has to undergo considerable trouble to realize the interest and the principal. On every pay day, he must visit the debtor's place and wait indefinitely on his doorstep while his customer slips away by a backdoor. The *risk* of non-payment alone may be estimated to account for a charge of 100 per cent. and the *earnings of management* for another 90 per cent. The balance of 10 per cent. may be said to account for the net interest, a rate below which with

the highest security and under the most competitive conditions of supply, capital cannot be had in Indian villages.

INTEREST PARTAKE OF THE NATURE OF PROFIT :—"The price then that the borrower has to pay for the loan of capital, and which he regards as interest, is from the point of view of the lender more properly to be regarded as profits."—Marshall.

Net Interest.

Net interest is the reward of waiting, but what commonly passes by the name of interest includes other elements besides this and may be called *gross interest*. Net interest equals the earnings of capital simply, or the price which is paid for the use of capital.

Interest and Rent.

Land is a free gift of nature, is fixed in supply and indestructible, while capital is man-made, is a flow and consumable. *So the payment for the use of land (rent) can never be identical with interest which is paid for capital.*

But rent and interest are always found to remain mingled together. In an old country where much capital has been invested to improve the soil, the element of rent on analysis is found to consist of interest proper as well as rent.

PROF. MARSHALL finds a closer affinity between rent and interest. *He states that rent, quasi-rent and interest are three species of the same genus.*

VI. The nature of Profits.

The income of the capitalist is a reward for two distinct services: (a) *for the supply of capital and (b) for supplying enterprise (i.e., undertaking risk)*. For the former service the capitalist gets interest, for the latter he is remunerated in the shape of *profits*.

Nature of profits.

Some economists hold the doctrine that "**profits are barren and acquisitive, and not productive.**" It implies that unlike rent, wages and interest which are paid for the productivity of land, labour and capital respectively, profits

are paid to the business manager not for his productivity (he gets earnings management for his business ability), but for his superior *bargaining* power. He stipulates to pay the three other factors of production,—the landlord, the capitalist and the labourer,—their shares in distribution long before production is complete, and as a consequence induces each of them to forego willingly a portion of their legitimate share which their respective productivity warrants. The total of those shares which the factors forego amount to what is called **net profit**.

Gross Profits.

PROF. MARSHALL defines profit "as the excess of a man's receipts over his outlay." By this he refers to gross profits. The gross profits of a business when analysed are found to consist of:—(1) Net interest on the capital invested, (2) wages of management that goes to the business manager, (3) *reward for trade risks and other special risks*, (4) and incomings resulting from inventions and good fortune. The first three elements taken together constitute according to English economists, *normal profits*.

Net Profits.

The amount of profit (gross) increases with a rise in price and with an increase in the efficiency of the entrepreneur. The remuneration of the other factors are generally fixed by custom or contract *but 'net profits' vary from year to year* due (a) either to a rise or fall in prices, (b) a loss or an expansion of the market, (c) the rivalry of substitutes, (d) a keener competition among producers, or (e) the introduction of monopoly, etc.

Causes of high and low profits.

PROFITS MAY ARISE DUE TO ANY OF THE THREE FOLLOWING CAUSES :—

(1) *Monopoly advantage*.—A monopoly advantage secured through special control over the factors of production brings larger profits. (2) *Correct anticipation of the market*.—When employer anticipates the demand correctly he reaps a profit. (3) *Rapid rise or fall in prices*.—Rise and fall in prices sometimes turn a loss into a profit and *vice versa*. (4) *Creative genius of producers*.—Competition reduces profit. Rival producers bring their highest energy and creative genius into operation to reduce the cost of production in order to leave a margin over their disbursements. Thus profits arise through an increase in the efficiency of production.

Distinction between Interest and Profits.

Penson explains the distinction with reference to a Joint-Stock Company. A JOINT-STOCK CONCERN RAISES ITS CAPITAL:—(1) By the sale of DEBENTURES, the holders of which get a fixed rate of interest whether there be any loss or profit in the business and have a prior lien on the assets of the company over the shareholders. They are creditors and are not share-holders or proprietors of the business. They undertake no risk. (2) Next, come the PREFERENCE SHAREHOLDERS who get a fixed rate of dividend, but which becomes only available when there is any profit in the business. There are, again, Cumulative Preference shareholders, whose dividends accumulate in years of no profit and losses and become chargeable in preference to all other parties (except the debenture holders) when profits accrue. They merely postpone drawing profits in years of no profit and losses. (3) Finally, come the ORDINARY SHAREHOLDERS, who are the real risk-takers. They get their share after the foregoing parties have been paid.

The first two parties who do take little risk get only, for the investment of their capital, *interest*. The ordinary shareholders, on the otherhand, who undertake the whole risk of the business gets profits.

CONSUMPTION

CHAPTER XXVI.

EFFORT AND SATISFACTION.

I. The importance of Consumption.

Consumption defined.

MARSHALL defines consumption as 'negative production.' As production means a rearrangement of matter to create utilities, so consumption means nothing more than a disarrangement of matter which lessens or destroys utilities. It is to be remembered that just as man cannot create matter, so also he cannot destroy matter.

PENSON defines consumption as "*the application of wealth to the satisfaction of wants.*" *Consumption conveys the idea of spending and not saving.*

Importance of Consumption.

Consumption is in fact both the beginning and end of all economic processes.

"It is its beginning because the desire to consume is the motive of all economic activity. *It is its end* because when the effort has been made, when wealth has been produced, that wealth has no other function or purpose than to be applied directly or indirectly to the satisfaction of human wants."

"People produce because they want to consume, and they can only consume what has been produced." *Desire to consume* is the cause of productive effort: *productive effort* results in wealth: *wealth* only exists for satisfaction of wants: *satisfaction of wants* is obtained through consumption.

Relation between Production and Consumption.

Production (effort) and consumption (satisfaction) are co-related. People are earning and spending at the same time.

MAN CONSUMES TO PRODUCE.* During present times, unlike in the early stages of human society, *all earnings are not wholly and immediately spent or consumed.* Some are saved and invested to accelerate production. Moreover, unless we consume well our efficiency of production would materially suffer.

II. Human Wants: their characteristics.

What is Want?

Wants mean *effective* wants or effective demand. "Mere desire to possess is not want in the economic sense, for it leads to no economic activity or sacrifice. A beggar who covets a piece of bread can never be said to have an effective want so long as he is unable to pay the price for it. Satisfaction of wants involves a corresponding sacrifice.

Characteristics of wants.

Human wants are not the same between different countries and between different times. The want of an Indian is not the same as that of a European, nor what an Indian wants to-day he required a generation ago.

Differences in social and moral standards of life, and variety in political and economic institutions due to differences in the standard of civilisation, make wants different.

* *Productive consumption* implies the utilization of some goods not for direct consumption but for the further production of other goods. The utilization of a sewing machine for making shirts is productive consumption but the consumption of the shirt is *unproductive* or *final* consumption.

But among these diversities of human wants there are some uniform characteristics which may be said to be *universal* and may be stated as follows:—

(1) *Human wants are unlimited in number.* In the savage state man had few wants but with every step in his progress the *number* and *variety* of wants have increased.

Among an ignorant, backward, unambitious and uncivilized people, new wants are almost unknown.

(2) *Wants are of very different degrees of intensity.* Some wants are more intensely felt than others.

(3) *Wants tend to become matters of habit and second nature.*

(4) *Wants are complementary, i.e., they are satisfied most eminently in groups.* In order to obtain the maximum of enjoyment, certain articles should be enjoyed together, *e.g.,* food and drink, horse and carriage, etc.

(5) *Wants are competitive.* Men have endless wants but all of them are simply impossible to be satisfied. So we weigh the several competing wants and *substitute the less pressing wants by the more pressing wants.*

Some other characteristics of Wants.

PENSON says that some wants are evidently more *urgent*, others are more *attractive*, while many are more *durable* than others.

(a) URGENT WANTS.—Food, drink, clothing and shelter comprise our most urgent wants.

(b) ATTRACTIVENESS OF WANTS.—Attractiveness of a want depends upon individual tastes and habits. Sometimes we sacrifice much to secure goods which we prize most.

(c) DURABILITY OF WANTS.—*Some wants endure through life-time*, such as, the demand for food and drink,

and though temporarily our demand for them may be satisfied, they only recur again within a very short time.

III. Classification of Wants.

Wants (wealth) may be classified into three classes:

(1) *Necessaries*: (2) *Comforts* and (3) *Luxuries*.

A man spends his income first on necessities, then what surplus remains he spends on comforts and luxuries respectively.

Necessaries.

NECESSARIES may again be classified into three classes:

(a) necessities for existence; (b) necessities for efficiency; (c) and conventional necessities.

(a) *Necessaries for existence or absolute necessities of life*. They consist of goods necessary to keep body and soul together.

PENSON thus sums up:—*Necessaries* are for sustaining life, it is the minimum. In England, it includes a reasonable amount of plain wholesome food, of decent clothing and of healthy home surroundings.

(b) *Necessaries for efficiency*. A man should have a larger income to provide him with necessities which will not merely keep his body and soul together but should be conducive to the growth of his efficiency.

"In England for an ordinary labourer it consists of a well-drained dwelling with several rooms, warm clothing, with some changes of under-clothing, pure water, a plentiful supply of cereal food, with a moderate allowance of meat and milk, and a little tea, etc., some education and some recreation, and lastly, sufficient freedom for his wife from other work to enable her to perform properly her maternal and household duties."—Marshall.

(c) *Conventional necessities*. They are such necessities which we require neither for sustaining our lives nor

for retaining our efficiency but which we should incur in response to the forces of custom, habit and public opinion. We must have them even at the sacrifice of our absolute necessities.

Comforts.

It stands between necessities and luxuries and only indirectly influences the efficiency of the labourers. Comforts stand for a fuller life, for more wholesome existence, and for a decent standard of living.

PENSON says comforts imply better food, clothing and housing, provision for recreation and amusement and the satisfaction of intellectual needs.

Comforts add to efficiency disproportionately less than the cost incurred.

Luxuries.

"Luxury is the name of a vague something which society has always viewed with a sense of mingled tolerance and condemnation." PROF. ELY has defined luxury as *excessive consumption*, that is to say consumption of things which are not necessities.*

Harmful and harmless luxuries.—Luxury is not an evil in itself but it has its limits also. There are things which when consumed, neither add to nor detract from a person's efficiency, while there are others which detract from a person's efficiency. The former may be called *harmless luxuries* and the latter *harmful luxuries*.

Justification of Luxury.

Luxury may be justified, says PENSON, from a social point of view on the following grounds, most of which, however, he admits are open to criticism:—

* PENSON says luxuries comprise the refinements of life, expensive habits and amusements and more elaborate mode of living; such as costly motors, ornaments, table delicacies, etc., together with the indulgence of expensive tastes in art, literature and travel.

(1) *Luxurious expenditure gives employment to many and is generally good for trade.*

But would there not be an equal amount of employment if the money were expended in some useful industries?

(2) *The demand for articles of luxury calls for greater refinement and greater skill on the part of those who produce them.*

But do not luxurious expenditure lead to the employment of comparatively unskilled labour?

(3) *Luxurious expenditure transfers wealth to those who will make a better and more socially advantageous use of it.*

But do all transference of wealth, say, through gambling, results in a better use of it?

(4) *The desire for luxury is a mark of progress and at the sametime a stimulus to invention, to productive improvement, and to the fuller exercise of capacity.*

A lift in a Rolls Royce may kindle the fire of ambition in a young man.

PENSON concludes that luxury is not in itself necessarily an evil though many forms of it may be socially undesirable and injurious to individuals.

Luxury becomes unjustifiable in relation to time and person. The purchase of a motor car may be justifiable in case of a businessman but not in the case of a middle class gentleman with moderate income.

IV. Spending and Saving.

The methods of spending.

He spends best who 'makes money go such a long way.' One can only spend his income in the most economic way if he knows what exactly comprises his needs and where he can get it cheapest; if he be a good bargainer and a judge

of qualities, and if he can estimate properly as to what things he is in most need of among the various competing wants.

A man's income is to be spent, first *on his immediate needs*; next he must save something *to meet future wants*. Society has also some claim over him for which he should make voluntary contributions to charitable purposes and compulsory payments to the state in the shape of taxes.

What is Saving?

'Saving means turning wealth into capital by deliberately applying it to productive purposes instead of to consumption purposes.'

Spending vs. Saving.

There is a controversy as to whether spending or saving is advantageous or not from a social point of view.

SPENDING IS GOOD. Some argue that spending creates more demand for services of labour. It helps manufacturers, traders, and labourers.

But is it so? Suppose we spend all our income without laying by anything. Then there would be no saving and a shortage in the supply of capital. As a consequence, production would be hampered, the supply of goods would diminish, prices would rise and one's income would purchase less of things than before.

SAVING IS GOOD. OTHERS ARGUE THAT SAVING IS GOOD BECAUSE IT HELPS THE GROWTH OF CAPITAL. But excessive saving is *neither desirable* as in that case goods would remain unsold and the incentive to productive effort would be gone, *nor it is possible* as we must under all circumstances purchase the necessities of life.

NEITHER OF THEM IS ABSOLUTELY GOOD OR BAD.
Neither excessive spending nor excessive saving is good.

We must balance the two properly. If all is spent and very little is saved, the supply of capital would diminish and the rate of interest will rise. Though that would serve as a stimulus to saving, production would greatly suffer, and prices would rise. On the otherhand, excessive saving will increase the supply of capital and will bring down the rate of interest which would ultimately serve to discourage saving.

THE SOCIAL ASPECT OF SPENDING IS OF SO MUCH IMPORTANCE that governments have been forced to put certain restrictions upon spending, *e.g.*, in the shape of fixing prices, in demanding licenses, etc. We may be tempted to spend (a) *on goods which is unwholesome for human consumption, e.g., opium and other intoxicants*, (b) *on objects which divert capital and labour to industries which are of lesser social advantage, e.g., when labour and capital are diverted to the building of stadiums for encouraging dog races at Behala instead of being spent on the construction of dwellings for the poor labourers*, and (c) *on things which cater to momentary pleasures, e.g., the carnival shows*. In such cases intervention of government to regulate individual expenditure is welcome.

What is Waste?

PENSON defines Waste "as making an effort which does not bring a corresponding return in the way of satisfaction." Take the case of a man who spends Rs. 1,000 in giving a banquet to his neighbours, friends and relatives on the occasion of his daughter's marriage. *From his individual point of view* it is not waste as the sacrifice yields him corresponding amount of pleasure. But *from the social point of view*, it is a sheer waste in as much as this fleeting enjoyment involves disproportionately larger sacrifice of labour and capital. The adage, "*waste not, want not*,"

applies in the case of a nation in the same way as in the case of an individual.

DESTRUCTION OF WEALTH.

Destruction of wealth, whether accidental or wilful, is generally a case of waste. A pane of glass when wilfully broken may create a demand for a new pane, but this expenditure on replacement would merely divert capital from other industries. So trade in general will not be benefitted at all by such destruction, or by accidents.

A young ne'er do well, the son of an honest citizen named Jacques Bonhomme, happened to break a pane of glass. The neighbours gathered round him and tried to calm the enraged parent by assuring him that such little accidents were good for trade. "What," they said, "would become of the glaziers, if no windows were broken?"

BASTIAT says *such an argument is based entirely on the things we see, and ignores altogether the things we don't see*. Evidently six francs more are spent on mending the window pane but Jacques Bonhomme will have six francs less to spend on other things.

PENSON says, *destruction of wealth is only and then advantageous when it appears to be a necessity under the circumstances*. For example, suppose the Calcutta Improvement Trust intends to demolish certain bustees for the improvement of congested areas but the cost involved is not expected to be covered by the second hand materials that would be obtained in the process. In such a case, if a fire *accidentally destroys the bustee*, the loss involved is not unwelcome and such a destruction is not waste.

The Standard of Living.

In connection with the term necessities, we came across the idea of *standard of living*.

The standard of living implies the satisfaction of a certain number of habitual wants which have become the

normal adjuncts of everyday life. Different people have different standards. "It varies from class to class, from individual to individual, and from time to time with the same individual or class. It is a question of habit, of circumstances, of tastes, of ambitions."

The standard of living is not merely a purely personal matter: *it is of the greatest importance.* "The Standard of Living, or the Standard of Comfort, has a considerable bearing on the industrial efficiency, on the social and political organization, on the progress and development of the people as a whole."—*Penson.*

CHAPTER XXVII

MEASUREMENT OF HUMAN WANTS

I. Measurement of Human Wants.

Human wants cannot be measured directly in terms of quantity, *e.g.*, in maunds and seers like flour and sugar. It can be measured indirectly, *viz.*, by *how much a man is willing to pay for a thing*. But why do people offer to pay something in exchange. It is just because people feel some utility for it. So measurement of wants entails a detailed study of the measurement of *utility*.

The Law of Diminishing Utility.

The law states that the more of a thing we have, our utility for the additional units of supply of the thing diminishes. As a result, we offer lower and lower prices for the additional units of supply of the thing. (For detailed study, read Chap. III.).

The Law of Demand.

The law of demand is based upon the fact of diminishing utility. Prof. Marshall has defined the law thus: "The greater the amount to be sold, the smaller must be the price at which it is offered in order that it may find purchasers; or, in other words, *the amount demanded increases with a fall in price and diminishes with a rise in price.*" (Read, Chap. XI.)

The Law of Elasticity of Demand.

All wants are not satisfied with the same rapidity. Some wants, their number is legion, are satisfied slowly, while there are others which are satisfied rapidly. To the former class belong articles which contribute to comfort and comprise the secondary necessities of life. For such goods many people seem to possess some amount of unsatisfied

demand. On the otherhand, there are some goods for which our demand is satisfied rapidly, *e.g.*, with absolute necessities of life, like food and drink, etc.

It is our universal experience that when the prices of former class of articles fall or rise by a little, say, by a few annas per lb. or yard, there is witnessed a heavy increase or decrease in purchases of those things. In cases of latter class of articles a rise or fall in prices do not affect consumption appreciably, because for absolute necessities of life the demand remains constant. For a low price nobody would stock more coffins for future use, nor in case of a high price any person would go without its use. Similarly, with a rise in the price of wheat or cloth nobody would go without them. The demand for former class of articles is said to be *elastic*, while that of the latter is called *inelastic*.

So Marshall defines:—“The elasticity of demand in a market, as in the case of an individual person, is great or small according as the amount demanded increases much or little for a given fall in price, and diminishes much or little for a given rise in price.”

Exceptions to the Law.

We have seen that the elasticity of demand operates because on account of high prices of some commodities many people are unable to purchase them. So a fall in their prices induces people to seek to satisfy their demand more fully.

CASES WHEN THE ELASTICITY OF DEMAND DOES NOT OPERATE:—

(1) *For articles of habit.*—People consume as much of a thing as before irrespective of a little rise or fall in prices, if it be an article of habitual consumption, *e.g.*, tobacco, opium, watches, etc.

(2) *For articles of necessity.*—It is assumed that in all countries people have enough means to get an adequate

supply of all the absolute necessities of life. So a little rise or fall in the prices of such articles would not affect consumption much.

But it is an unfortunate fact that people of India are so poor that even a fall in the price of such an absolute necessary of life, like salt, stimulates its consumption.

(3) *Improvement in the general well-being.*—As the economic condition of a country improves, the people attach little importance to a small rise or fall in prices just as the rich do not attach any importance to a rise or fall in prices of articles of comparatively low value which comprise their daily necessities of life.

(4) *The demand for conventional necessities is inelastic.*—A man clings to his standard of comfort very tenaciously and would rather sacrifice many of the necessities of life rather than sacrifice any of the conventional necessities.

(5) *Demand for monopoly goods is generally inelastic.*—Royal editions of books of Bankim Chandra, Rabindranath and Sarat Chandra are purchased by a few rich and they would not purchase a few copies more with a little lowering of prices. For cheaper popular editions which are purchased by middle class people a lowering of price may stimulate the demand tremendously.

(6) *Elasticity is relative to a class.*—Wall fruit, rare wines, costly jewels, etc., have an elastic demand for the rich only. They are not elastic to poorer classes of people. It is immaterial to the poor and the lower middle class whether there is a little fall in prices of very costly articles because they can never aspire to purchase them. Only the demand of the rich may be whetted in such a case.

It is to be noted that for articles of low value like salt, matches, food articles, etc., the demand is very inelastic, while for articles of high value demand is elastic.

So Prof. Marshall states: "*The elasticity of demand will be great for high prices, and great or at least considerable for medium prices, but it will decline as the price falls.*"

(7) *Excessive elasticity operates when substitutes are available.*—When an article has got a rival and a substitute, a little rise in its price may lead to so much operation of elasticity that the demand for the article may be destroyed altogether. For example, rise in the prices of gas or coffee may lead to their complete substitution by electricity or tea.

How to estimate the Elasticity of Demand.

MEASUREMENT IS RELATIVE TO A CLASS.—The elasticity of demand of a particular commodity can only be measured with reference to the different classes of persons who consume it. It would be a mistake to state that the elasticity of demand for salt, or gold, or books, is absolutely great or small in India. To estimate the elasticity of demand for a thing we are to note the respective demand for that article among the different classes of persons composing a society (*e.g.*, of the rich, the upper middle class, the lower middle class and the poor).

For example, a fall in the price of diamond would not increase its demand for all classes but alone of the rich, while a fall in the price of furniture would neither stimulate the demand of the rich who have already enough supply of furniture, nor of the poor who have not the means to purchase them, but of the middle class alone. Similarly, a fall in the price of tea would not increase its consumption among the first two or three upper classes of society.

It is a peculiar fact in India that though "salt" is a very low-priced article and comprises the foremost of the absolute necessities of life, it has great elasticity, that is to say, its consumption increases considerably with every fall in price. It is so, because of the prevalence of dire poverty in the country. On the otherhand, there is the apparent paradox that the demand for "gold," the most highly priced article,

is to a great extent inelastic due to the customary habit of wearing ornaments among the people, their religious prejudices, etc. The use of gold has not proportionately diminished with the recent rise in gold prices.

For "books," to the unlettered millions there is no elasticity but to the middle class it has great elasticity, particularly for those books which are priced highly.

II. The Law of Substitution (Equivalent Marginal Utility).

Not only we offer to purchase more of a thing when the price is lowered, but also *we do always so arrange our expenditures as to derive equal utility or usefulness from each unit of our expenditure*. When we find that from one head of expenditure the utility derived is much less than from another, we do at once hasten to curtail a portion from the former head. This idea of *substitution in our consumption* so as to equalize utilities from each unit of our expenditure has obtained from primitive times.

A primitive housewife who was to look after the expenditure of a family had to see that the quantity of wool at her disposal be not so distributed that some men may have more pants but fewer shirts, or more caps and fewer socks. It was her duty to see that the wool may be so distributed that each person may have the requisite amount of garments.

Why do men keep accounts of their expenditure? The sole motive guiding it should be to see at the end of the year that more money have not been spent indiscriminately on furniture and less on food and clothing, more on horses and motor cars and less on education of children, etc.

PROF. MARSHALL THUS DEFINES THE LAW:—"If a person has a thing which he can put to several uses, he will distribute it among these uses in such a way that it has the

same equal marginal utility in all. For if it had a greater marginal utility in one use than another, he would gain by taking away some of it from the second use and applying it to the first."

III. Consumer's Surplus.

We do not pay price (value) of things according to their utility. We actually pay much less price (in money) than what the utility of a thing warrants. That is to say, we as consumers of goods derive surplus utility or satisfaction for which we do not pay any price.

Illustration. For a postcard we pay three pice, and had it not been available at that price we would perhaps, rather than go without the use of a postcard, have been induced to pay as much as As. 4 which measures the actual utility of a postcard. So thirteen pice (16 pice—3 pice) may be said to measure the surplus utility which a man derives from the purchase and use of a postcard, an amount of utility for which he has not to pay any price. The surrounding or *environment** of a man has much to do with it. A man in Calcutta can get a morning newspaper at a cost of one anna, can get the supply of electric light, etc., at ten pice a unit, and so on, and the total amount of utility which he derives by spending Rs. 200 a month may be much greater than what a man is expected to derive by spending Rs. 2,000 in an interior village.

PROF. MARSHALL THUS DEFINES CONSUMER'S SURPLUS: —"*The excess of the price which a person would be willing to pay rather than go without the thing, over that which he actually does pay, is the economic measure of the surplus satisfaction derived by a consumer.*"

How to measure Consumer's Surplus.

We find a man to pay in all Rs. 5 to purchase 5 lbs. of

tea, that is to say, rupee one for each lb. of tea purchased. But he was willing to pay Rs. 4 for the first pound rather than go without the supply of tea altogether, Rs. 3 for the second, Rs. 2-8 for the third, and Rs. 2 for the fourth. In short, he was willing to pay for 5 lbs. of tea Rs. 12 and As. 8 in all (Rs. 4+Rs. 3+Rs. 2-8+Rs. 2+Re. 1), while actually he had to pay only Rs. 5. That is to say, he derived a surplus utility as a consumer (consumer's surplus) of Rs. 7 and As. 8 for which he had to pay nothing.

It may be asked why the producer of tea accepted only Re. 1 per pound of tea when the purchaser was willing to pay much more. It is because the producer has raised millions of lbs. of tea and wanted to sell the whole stock. So he had to lower prices so much so as to tempt consumers to purchase the whole supply. Moreover, a high price might have invited many more competitive producers of tea to the market and would have brought down prices to the level of the actual cost of production.

IV. The Family Budget.

Dr. Ernst Engel compiled in 1857 a table relating to the expenditure of Saxon (German) families. It shows clearly how different percentage of income are expended on food, clothing, etc., according as the families are working class, middle class, or well-to-do.

With the lowest income, the percentage spent on *food* is the highest, with the highest income it is the lowest.

The percentage of outlay on *clothing* is approximately the same with both comparatively higher and lower incomes. Such is also the case with *housing expenses* or *rent*, *fuel*, etc.

As the income rises the percentage of outlay on *sundries*, such as on education, health, worship, etc., becomes larger.

CHAPTER XXVIII

THE ECONOMIC LIFE OF THE STATE.

I. Public Finance.

The wants or needs of the state arise out of its functions. The fewer or many the functions, the smaller or larger its needs.

In modern times, the idea about state functions is more *socialistic* than *individualistic*. It has been universally recognised that the duty of the state is to promote and safe-guard the social well-being of the community. So *the functions of the state are becoming numerous, e.g.,* they extend to-day to the imparting of education, the provision for public health, the extension of communication (*e.g.,* through posts and telegraphs, railways, etc.), the care of the infirm, the aged, the victims of accident and of the unemployed, etc.

PUBLIC FINANCE DEFINED.—The income and expenditure of the state forms the subject-matter of *Public Finance*. Plehn defines public finance as “the science which deals with the activity of statesmen *in obtaining the material means* necessary for fulfilling the proper functions of the state.”

II. Expenditure and Income.

A. Items of Public Expenditure.

The principal items of expenditure of modern states may be classified as follows:—

- (1) *For defence* (army expenditure).
- (2) *For internal order and security* (expenditure on police and administration of justice).

(3) *For commercial enterprises* (expenditure on posts, telegraphs, railways, etc.).

(4) *For public benevolence* (expenditure on public health, medical relief, education, poor relief, etc.).

Principles of public expenditure.

Government raises revenue not to hoard but to use it for the common benefit of the people. The test of expenditure is the *creation of maximum utility*. Economy and not parsimony should be the guiding principle of the financier. Expenditure should be devoted to comparatively small number of great objects and should be elastic, *i.e.*, expanding and contracting with public requirements. More expenditure should be incurred for the welfare of the poor than for the rich.

B. Sources of Public Revenue.

(1) *Voluntary Contributions*.—They have become obsolete in modern times.

(2) *Lucrative Prerogatives*.—It includes incomes from *escheat*, *finés* and *forfeitures*, *tributes* from colonies, dependencies, and conquered nations, and the *sale of offices*, *honours* and *titles*, and *rent income*. They bring very little income in modern times.

(3) *Public or State Property*.

(4) *State Enterprise* (such as forests, fisheries, etc.), or *commercial undertakings* mostly of the nature of public utility services like post office, telegraphs, railways, etc., bring in revenue to the State.

(5) *Quasi Taxes*.—They include incomes from monopolies conferred upon individuals or corporations, profits from lotteries, etc.

(6) **Taxation in its various forms**.—They are both *direct*, such as land revenue, income tax, etc., and *indirect*, such as excise tax, customs duties, etc.

Of the six sources mentioned above, the last item alone brings in to-day almost the whole income or revenue of a government.

Productive and Unproductive Expenditure.

The test of productive expenditure is not whether it brings in any advantages or benefit to the community. To be classed as '*productive*' an outlay must bring in tangible monetary income. So investment on education has been classed as '*unproductive*,' simply because the capital outlay does not yield a definite percentage of money income. But it indirectly increases, through intellectual uplift, the productive power of the community. Expenditure on railways, irrigation, post office, etc., on the otherhand, is considered as productive as they yield an income.

III. The Budgetary principles.

Every government frames a budget of its expected revenue and expenditure at the beginning of its official year. Unlike in the case of an individual, a government in matter of expenditure does not cut its clothes according to its cloth, but *vice versa*. That is to say, it first makes an estimate of its expenditure and then finds ways and means to raise the required revenue. In case of a surplus budget it remits or reduces taxes, in case of a deficit it levies new taxes or enhances the rates of the old ones.

The Budget.

The budget is an estimate of the probable income and expenditure of the ensuing year of a government. The finance minister of every country makes a Financial Statement at the beginning of the official year. It is merely a probable estimate, so it often varies considerably from the actuals.

In some years the expenditure could not be met from the ordinary revenue raised by taxation. Such a budget is called a *deficit budget*. In other years, the revenue may

be found to exceed the amount of expenditure and it is called a *surplus budget*. Sometimes due to unforeseen circumstances a surplus budget may prove to be a deficit one or *vice versa*. Now-a-days, budgets are drawn by estimating first the amount of expenditure. The provisions are made for raising revenue to meet such demands. No surplus is allowed to accumulate.

Ordinarily, a financier attempts to meet a deficit budget by fresh taxation, and in case of an expected surplus makes remissions or reductions of taxes. But when the deficit is large, he has to take recourse to borrowing which is finally to be met only out of the Sinking Fund. By judicious retrenchment a deficit may also be met.

SINKING FUND.—It is a fund maintained for the purpose of sinking or paying a debt. Every nation to-day has large national debt. The function of the sinking fund is to repay ultimately these debts. For this purpose, every country with sound finance contributes regularly and annually to such a fund for the final wiping out of the national debt.

A provincial government, like Bengal, may meet a deficit by various devices, *e.g.*, by borrowing money from the central government, by attempting judicious retrenchment, by keeping in abeyance some major or minor commitments, by exercising its own right of borrowing, by suspending some items of payments, by increasing the rate of taxation and also by levying new ones permitted by the constitution.

IV. Taxation: the Canons.

Compulsory contributions, exacted by public authority according to some general rule, without reference to the special benefit which the said contributions are expected to produce, is called **taxes**.

On analysis the definition is found to contain two ideas :—(1) It is a compulsory contribution. (2) It is not levied in proportion to the benefit which a tax-payer expects to derive from the state. A man who enters into a contract for the purchase of property worth, say, Rs. 10 lakhs, might have been willing to spend in Stamp Duties (as a protection against breach of contract) a large sum of money, but the State charges him only As. 12.

Adam Smith's Canons of Taxation.

What are the equitable principles according to which taxes are to be levied? Adam Smith has laid down the four following canons :—

(1) *Taxes should be paid according to ability or faculty to pay.* Everyone ought to contribute to the state in proportion to the revenue which he enjoys under its protection.

CRITICISM.—If we take this to mean that people should pay taxes according to their ability as measured by their income, it seems not to be satisfactory. It will seem to support the idea that those who earn most, must pay most. So it will discourage initiative and providence. Moreover, it may entail hardship in the sense that one's ability may not be proportionate to his income. A person may have an equal income as another but he may have to support a large number of dependents. Ability should be best interpreted in the sense that the rich should pay more taxes than the poor.

PENSON says that the principle of ability to pay is very well-secured in the case of Income Tax. Under that tax small incomes, incomes of married people and of those having large number of dependents are wholly or partially exempted while large incomes are progressively taxed.

(2) *It should be certain and not arbitrary.*—Taxes should be certain and not arbitrary. Every one should know clearly, how, when and how much he is to contribute.

(3) *It should be convenient to pay.*—Every tax ought to be levied at the time or in the manner in which it is most

likely to be convenient for the contributor to pay it. Land revenue is to be realized shortly after the harvesting season.

(4) *It should be productive and could be economically collected.*—Taxes should be sufficient to meet the needs of the State. They should also take as little as possible from the tax-payers beyond that which comes to the Treasury. That is to say, the collection should be done at a minimum expenditure, and must bring in a very high percentage of the collected revenue to the coffers of the state.

In summing up his remark on the four canons, Penson says that we may take it for granted that every Chancellor of the Exchequer in framing his budget should be more or less guided by the four maxims,—**equality, certainty, convenience and economy.**

In addition to the four above canons, several other principles have been proposed.

(5) *Taxes should be productive.*—Ordinarily, the yield of taxes should be sufficient enough to meet the purposes of the state. A tax, again, should not only be productive but must be such as not to injure the industry or trade from which it is derived.

(6) *Taxes should be elastic.*—As the expenditure of the state fluctuates from year to year, the sources of revenue should be such that they can be increased and decreased. The reduction or increase of the income tax by a pie, salt tax by a few annas, and the customs duties by a few rupees, lead to-day to the decrease or increase of State income by many crores of rupees.

“By inelastic is meant that taxes can be increased without causing a falling of in the revenue derived from them.” The Income Tax may be cited as an example.

(7) *Taxes should not oppressive.*—A heavy rate of taxation not only checks production and saving and con-

sequently the growth of capital but it also leads to evasion, dissatisfaction, and to governmental prodigality.

How equity in taxation may be secured?

As taxes decrease one's income and so his individual initiative, care should be taken that it might be light and based on the principles of equity and justice.

It is pointed out that equity in taxation may be achieved in either of the three ways:—

(1) *If taxes be levied proportionately to the 'benefit' enjoyed by individual citizens.* But is it possible to measure the benefit in most cases?

(2) *If taxes be levied according to the cost incurred by the state to render a service to a citizen.* This principle, secures equity where the service rendered is direct, *e.g.*, postal and railway service; but where the services render common benefit to all, *e.g.*, police, roads, defence, etc., at what rate the payment is to be made? Would the richest pay at the same rate as the poorest?

(3) *If taxes be levied according to one's 'ability to pay.'* If 'ability' is interpreted to mean taxation *in proportion to one's income*, it would prove inequitable to those who have a larger family to maintain. Again, if ability to pay is interpreted to mean *equality of taxation*, *i.e.*, charging equal percentages from all persons whether he is rich or poor, then also equity is not secured. Further, it is difficult to calculate how much one is paying, as each one of us is paying our taxes both in direct taxes which can be measured and in indirect taxes which cannot be measured.

Penson concludes that Adam Smith's principle of equality is secured when everybody 'bear some share of the national burdens, the rich and well-to-do a larger share than the poor'.

Prof. Ghosh states that the majority of modern economists think that equity is best secured when taxation is levied '*on the principle of ability coupled with the principle of equal sacrifice*'. The ideal would be secured when (a) all small incomes are exempted from taxation, (b) people with larger families and dependents are taxed lightly, (c) unearned increments from land are taxed at a higher rate, and (d) larger incomes are taxed at a progressively higher rate, as is the case with British and Indian Income Tax assessment.

The other administrative points that are to be remembered in taxation are that for the *benefit of the state* taxes should be certain, productive and elastic, and for the *benefit of the tax-payer* it should be convenient, less wasteful and certain.

Taxation in India.

In India, all the above principles have been taken into consideration in regulating the sources of revenue. The income tax is progressive (based on the principle of ability) in the sense that higher the income ascends the greater is the rate of assessment. Though the land taxes are realized in several instalments yet they are carefully distributed over the year commensurate with the harvesting seasons, and are certain. The income tax and the customs duties are elastic and bring in substantial revenue to the state (approximately Rs. 18 and Rs. 50 crores respectively). The pity of the situation is that the country is so poor that though the incidence of taxes in comparison with European countries is very low yet they cause considerable hardship to the masses. The raising or reduction of the salt duty has invariably recorded a marked falling off or increase in its consumption which, however, is an absolute necessary of life and is of very low value. To-day through a wide varieties of indirect taxes the poor have been made to pay more than the rich. Through the stringent levy of direct taxes, like income tax, inheritance tax, etc., the rich should be made to contribute their shares.

Kinds of Taxes.

Taxes are either *direct* or *indirect*.

Direct Tax. When taxes are levied with no expectation or intention that they shall be shifted upon other persons than those first called upon to pay them, it is called a **direct tax**. Taxes on property, inheritance tax, land taxes, income tax, etc., are cases of direct tax. They are paid by the persons on whom they are levied.

Indirect taxes, on the otherhand, are levied on the understanding that the persons first called on will transfer the burden to others and will transfer it with tolerable ease and certainty, e.g., customs dues, excise taxes, salt duty in India, etc. When the government levies customs duties on foreign imports of cloth, the importer adds the tax to the price of the cloth and makes the consumer of the cloth to pay the tax ultimately. As the tax is imposed with a purpose of being shifted on to other persons, the latter is said to be indirectly taxed.

Advantages of direct tax.

They are many :—(1) It is levied generally in proportion to the income of a person, so it is *equitable*. (2) They *bring in large revenue*, particularly the income tax which is the mainstay of modern finance in most of the progressive countries of the world. Income tax is also very elastic. (3) It is *very difficult to raise the rate of this kind of tax* without arousing a chorus of protest, so governments which depend upon them cannot help becoming economical. (4) As this kind of tax is collected at the source, there is *very little chance of evasion*.

Disadvantages of direct tax.

(1) **UNPOPULAR.** The tax is *unpopular* as when people pay the tax they do not feel that they are getting any adequate benefit in return.

(2) **TAXATION CAN NOT BUT BE ARBITRARY.** It is very difficult to estimate one's (taxpayer's) income accurately.

In estimating net income a vast number of deductions must be made from gross income, most of which are vague and many of which are practically indeterminate. So oftentimes a direct tax is found to cause unjust hardship.

Advantages of indirect tax.

(1) **POPULAR.** This kind of tax is more popular in as much as it is not directly levied and is paid in small amounts through higher prices of goods at the time of consumption.

(2) **MAY BE EVADED BY THE POOR.** Those who do not want to pay the tax, can very easily avoid it by refraining from consumption of all articles of luxury.

(3) **ALL CLASSES MAY BE MADE TO PAY THE TAX.** As all classes, rich and poor, must contribute to the sustenance of the State, this form of tax attains the object by making all sections of the people pay it through consumption of absolute necessities of life, like salt, cloth, etc. The incidence on an individual is insignificant but the total yield is large.

Disadvantages of indirect tax.

(1) **IT TAXES THE POOR.** It is inequitable because they are levied on commodities which are generally consumed in largest quantities by the masses, *e.g.*, salt. Thus it is the poor who are made to bear the burden of these taxes.

(2) **PRICE RISES BY MORE THAN THE TAX AND CONSUMERS SUFFER.** It is oftentimes found that the manufacturers or importers of commodities who shift the burden of the tax on consumers often raise the price by more than the tax.

(3) **MAY AFFECT INDUSTRIES.** It may prejudicially affect the industries by raising the prices of goods.

The Incidence and Effects of a tax.

We have already seen what is meant by the *incidence* of a tax. We are now to distinguish it from its *effects*.

When a consumer of tea is made to pay a price which fully covers the tax, its effects may not be simple but far-reaching. If the higher price curtails consumption of tea, then the tea-grower, dealer, broker, carrier, retailer will all suffer and many may be thrown out of work. The higher price may depress still other trades which used to depend upon them. Thus the effect of a tax may be very far-reaching.

Central and Local Taxation.

Heads of revenue may be divided into central or local. The income derived from the former heads, such as income tax, customs revenue, etc., are spent for national purposes. Local taxes, on the otherhand, include land revenue, irrigation, excise, forest revenue, etc. They are levied by local or provincial governments. *Local rates*, e.g., road cess, public work cess, etc., are spent on heads which are expected to bring in direct benefit to the local ratepayer. The point of difference between taxes and local rates is that while the former are charged at a uniform rate throughout the country, or on some large part of the country, the latter differ according to localities. Taxes, again, vary in yield according to trade (or economic) prosperity or depression, but the total yield of local rates is almost stable as its total amount is first determined and then it is levied upon those who are to pay.

V. The Public Debt.

The mark of financial strength of a country to-day is its burden of national or public debt provided it has not arisen mainly out of war and other unproductive expenditure, e.g., from famines, pestilence, etc. At the beginning of the century (1900) the indebtedness of the civilized countries of the world amounted to £7,000 millions. At the end of the first quarter perhaps it multiplied ten times as much due to

the last war. India, a poor country, has to its debit a national debt exceeding Rs. 1,000 crores.

Taxation vs. Loans.

Ricardo said that **taxes are superior to loans** because (1) heavy taxation checks imprudent expenditure, and (2) while taxation usually falls on revenue, loans come from capital. So only in times of extraordinary expenditure loans are to be incurred. But it should always be incurred very cautiously because it stops accumulation of capital and diverts it from productive enterprises. In times of war a financier should at first tax heavily to check extravagant expenditure and finally should resort to loans. The yield of taxes follows the law of diminishing returns so the levy should not exceed a certain maximum percentage (say, 15 per cent.). By resort to taxes as well as to loans the government can command the maximum of capital from the unwilling in the form of taxes and from the willing in the form of loans.

Where future generations are to participate in the gains of present investment, it is equitable that money should be raised by loans.

Interest and the principal of loans should gradually be paid out of the revenue. Public debt does not always entail economic losses because it draws uninvested capital.

Forms of Public Debt.

The following are some of the important forms of public debt :—

(a) *Floating or unfunded debt.*—They are of the nature of advances made by the public to the government for short periods and repayable on demand, e.g., Treasury Bills.

(b) *Funded debt.*—No time is fixed for re-payment but it can be repaid at any date at the pleasure of the government, e.g., 3½ per cent. government paper in India. The

latter promises to pay interest at specified periods with the implied obligation of paying the capital when funds will permit.

How Public Debt is paid ?

Public debt is reduced by (a) repayment, (b) conversion, and (c) capital levy. *Repayment* is made through the Sinking Fund (read, p. 219). *Conversion* means conversion of loans paying a higher rate of interest to a lower one. War loans of all countries have in recent years been so converted. *Capital levy* is a special debt-redemption tax on all accumulated capital to reduce the burden of debt.

ECONOMIC PROBLEMS OF INDIA

CHAPTER I.

THE NATURAL ENVIRONMENT.

The Essential Problem.

Every country has been endowed by nature with a certain environment. In some cases nature has been bountiful, in others less benevolent, while in some almost niggardly.

But civilization means the increasing command of man over nature. So the study of economic problems implies in brief a survey of the economic environment of a country and the finding of ways and means by which the natural environment may be so modified as to confer the greatest advantages upon the people.

1. The Natural Environment of India.

India is a vast country.

BOUNDARIES OF INDIA.—The Himalayas which spreads over 1,250 miles are on the north, Assam and Burma on the east, and the Hindukush, Suleiman and the desert plateau on the west. The sea boundaries are the Bay of Bengal on the east and the Arabian sea on the west. India extends 2,000 miles from north to south and 2,500 miles from east to west. The Government of India Act of 1935 has separated Burma from India. This separation came into effect on the 1st of April 1937. In the following discussion however, Burma is regarded as a part of India.

India (including Burma) comprises an area of 1-4|5 million or a little over 18 lakhs of sq. miles and is greater than Europe without Russia and is fifteen times larger than Great Britain. A little over 60 per cent. of the area is within British India, the rest (about 40 per cent.) is included within Indian States.

India is naturally divided into four well-marked regions :

(A) The mountain-region of the North. (B) The Indo-Gangetic plains. (C) The Deccan or the Southern Highland. (D) Burma.

A. The Northern mountain-region or the Himalayas.

It may be likened to a three-stepped staircase wherein the *first* is the foothills rising above the plains, the *second* is the Lower Himalayas, and the *third* is the Inner Main Ranges perpetually covered with snow.* It extends over a length of 1,250 miles and reaches a height of 29,000 ft. above the sea level.

Economic contributions of the Himalayas.

(1) It *protects India from the cold winds* that blow over Tibet. (2) It allows such great rivers of India like the Indus, the Sutlej and the Brahmaputra, which have their sources in Tibet, to flow through it and *carry in water from outside India*. (3) It *prevents the monsoon from passing out of India* and absorbs the moisture of the S. W. monsoon, but releases it again in the winter months in the shape of N. E. monsoon, and thus *gives a second rainy season*. (4) The lower Himalayas, being covered with forests, arrest a large quantity of rain water in the net-work of their roots which trickle down continuously throughout the year and *supply summer streams with water during the dry months of the year*. Had not the Himalayas been covered with dense forests, the torrential rainfall of the monsoons would have flowed with fury over the plains below washing it all to the sea. (5) *All the great rivers of India come*

* Bhatnagar—Basis of Indian Economy.

from the Himalayas. The silts as well as the water which the great rivers carry from the Himalayas serve as great fertilizing agents. (6) As every degree of temperature is felt on ascending the Himalayas, every kind of fruits and vegetables are found there. (7) There is a great reserve of potential water-power available for industrial purposes in the Himalayas. Attempts are being made in the Punjab and in Bihar to utilise this water power for generating electricity.

B. The Great Indo-Gangetic Plain.

It stretches between the Himalayas and the *Vindhyas* and is watered by the Indus, the Ganges and the *Brahmaputra*. Its width varies between 150 to 300 miles. The soil is alluvial and is about 1,000 feet deep and *is reputed to be the most fertile in the world*. The western half of the plains, called the Desert of Thar, consisting of (a) *Rajputana*, (b) South-western Punjab, and (c) South-eastern Sind is dry and sandy, while the eastern-half comprising Assam and Eastern Bengal is moist and water-logged.*

Speaking about the possibilities of the region, Prof. Bhatnagar says:—"If, however, we could develop hydro-electric power we would be able to develop cheap railways and still cheaper ropeways as the latter get over the difficulty of uneven country, and thus help the development of all those industries whose raw materials are found either in the forest of the Himalayas or in the mineral deposits."

C. The Deccan Plateau.

It is triangular in shape, its base being the *Vindhya* Ranges and the apex Cape Comorin. Its average height above the sea level is about 1,500 ft. On the east it is supported by the Eastern Ghats and on the west by the Western Ghats.

The steep hills of the *Western Ghats* are very close to the coast-line and form a complete wall which makes it impossible for rivers to flow in a westerly direction, and for the monsoon current to penetrate inland. The result is that the tract of country is liable

to famines and droughts. The *hills on the eastern coast is low and so the monsoon easily penetrates* and fertilises the deltas of the rivers, the Godavari, the Krishna and the Cauvery. The steep mountains on the West coast, however, make it easy to generate hydro-electric power. Many factories in Bombay are worked by electricity generated by water falling down the Western Ghats.

As the *tableland slopes mainly from west to east*, the rivers which are rain-fed and become swollen during the rainy months, become *drained dry in summer* when the sea-level goes down. The rivers for their rocky beds and wild currents have little value for *irrigation and navigation* purposes. The plateau falls within the region of uncertain rainfall.

D. Burma.

It is essentially a mountainous country, a continuation of the eastern end of the Himalayas. The rainfall is constant. It is famous for its forests, petroleum, kerosene, "Burma rice", "cigars", and rubies. Burma has been separated politically from India.

II. The Influence of Geography.

Advantageous geographic position.

India stands at the head of the Indian ocean and her trade routes radiate in all directions, to the west for Europe, S. W. for South Africa, South for Ceylon and S. E., for Australia, China and Japan. From time immemorial there has been complete landward isolation of India except through a few mountain passes in the north-west. The construction of the Baghdad railways and the *Asian Line* are expected to do away with the landward isolation of India in the near future.

Land and Sea boundaries.

India extends over 2,000 miles from North to South and 2,500 miles from East to West. The land and sea boundaries are almost about equal in length and on an average each extends over 5,000 miles.

FEW TRADE ROUTES ON LAND BOUNDARIES.

But it is a pity that on such an extensive land boundary, there are *very few trade routes*. The few that exist are caravan routes carrying a scanty trade with the semi-civilized peoples with mediaeval methods of life.

FEW INDENTATIONS AND HARBOURS ON COAST-LINES.

Again, on her very long coast-line extending over 5,000 miles in length, there are *few indentations*. The western coast is rocky and precipitous, while the eastern is much serf-beaten. *Necessarily there are few ports and harbours*. Six-sevenths of India's foreign trade is concentrated in six major ports, Calcutta, Bombay, Rangoon, Madras, Karachi and Chittagong. Only Bombay and Karachi have natural harbours. For this very reason India never rose to be a great maritime country.

Significance of the geographic factor.

But the land and sea boundaries have got the greatest significance for the country. The extensive mountain region of the north and the wide seas bordering the south, the south-east, and the south-west of India are responsible for the monsoons, for the distribution of the country's rainfall, for the varieties in her climate, crops and animal life, and for the utilization of her water resources by the generation of hydro-electric power, etc.

III. The Indian Monsoons.

Summer Monsoon.

Severe heat and extreme cold during the different seasons in different parts of India bring by their own action the relief—the monsoons. During summer when the land surface, particularly the mountain region of the north, becomes extremely hot, moisture-bearing cooler currents of

air blow from the seas below towards the land. In their passage towards the land they come in contact with cool belts of air, radiated by forest foliage which sometimes rise as high as 4,000 ft. in the air, and becomes condensed into rain. The summer monsoon begins in the month of June and lasts till September* and is called **the South-West Monsoon**, as it originates in the south-west of India—in the Arabian sea. It gives 90 per cent. of the total rainfall of India.

Three Currents.

The south-west monsoon becomes divided into *three currents*, the Bombay, the Bengal, and the Burma currents. The *Burma current* gives copious rain to Burma, the *Bengal current* to Bengal, Assam, Bihar and Orissa and to some portion of the United Provinces, and the *Bombay current* to the area between the sea and the mountain ranges on the western (Malabar) coast. The remaining moisture passes on to the Himalayas giving very little rain to Sind, Central India, Rajputana and the western Punjab as it does not encounter on its way any mountainous regions covered with forests. The western coast-strip, Bombay, Malwa and Eastern Punjab get some rain from this monsoon. At some stage the Bengal and the Burma currents meet together and proceed west and help to water moderately the whole tract from Bengal to the Punjab.

Winter Monsoon.

In the winter months when land becomes cooler than the seas below, moisture-bearing currents of winds pass on from the Himalayas towards the seas below. It occurs from the north-east and so is called **the North-east Monsoon**. It is the *south-west* monsoon in retreat. As this monsoon is of land-origin, it is generally dry. But, before it reaches the eastern coast of the Deccan Peninsula, it passes over the Bay of Bengal; and, so, it causes a moderate amount of

* "It drenches the parched lands of India with rain. It establishes in Bombay and Bengal about the middle of June, and before the end of the month it extends over practically the whole of northern India."—Banerjea, *Indian Economics*.

rainfall in the Madras Presidency. Madras, the Hyderabad States, Berar, C. P., Bombay and the Punjab get rain from this cold-weather monsoon. It gives 10 per cent. of the total rainfall of India.

Characteristics of Monsoon Rainfall.

(1) *The rainfall in India which is regulated by both the monsoons, is not well distributed.* It varies between 460 inches at Cherrapunji to about 3 inches in some parts of Sind. While the rainfall from the *Burma current* is 100 inches in the South Burma coast, it decreases to 20 inches in Upper Burma. Similarly, the rainfall caused by the *Bengal current* which is 100 inches in the North Assam Valley, diminishes to 60 inches in Shillong, 25 inches in Benares, 14 inches at Lahore and 5 inches in the Indus Valley (Peshawar). Again, the rainfall of the *Bombay current*, which is 100 inches on the Western Ghats, decreases only to 20 inches at the centre of the Peninsula and to only 5 inches in south Madras. This is due to the current being obstructed by the Ghats and deflected northwards.

(2) Rainfall should not only be *sufficient but well-distributed throughout the weeks and months*, and the recurrence of monsoons should be *properly-timed*. A late or an early monsoon would prejudicially affect the harvest. A drought or a draught may both spell disaster and bring famine in their trains. In India population has grown dense on the well-watered valleys of the Ganges where rainfall is regular and abundant.

(3) It is *situation, height* (mountains having heavy rain-fall), and *density of the moisture* (smallest in dry and desert regions) which are the most deciding factors in regulating rainfall.

Three Distinct Rainfall Zones.

We have already seen that the monsoon rainfall is not well-distributed. According to this distribution India may be divided into *three distinct zones*.

Some tracts, e.g., Bengal, Bihar and Orissa, United Provinces and the western coast-strips, get sufficient and regular rainfall and they are called *areas of constant rainfall*.

The Deccan up to Mysore where there are failures of rainfall every seven or ten years are known as the *areas of uncertain rain-fall*. It also includes the area that extends from Lahore to Allahabad, and finally to Bombay across Ajmere, Oodipur and Baroda.

Sind, Western Rajputana, and Western Punjab are known as *areas of drought*.

Comparative importance of two Monsoons.

The South-west monsoon contributes *nine-tenths of the total rainfall of the whole year*, while the North-east monsoon accounts for only *one-tenth* of the total annual rainfall. The former roughly waters the eastern half of India and *raises crops which thrive on warm temperature and heavy rainfall*,—such as rice, jute, indigo, maize, etc., (kharif crops); while the latter irrigates the western half of India and *raises only those crops which prosper in cold weather and meagre rainfall*, e.g., wheat, barley, rapeseed, opium, cotton, etc. (*Rabi crop*). The two monsoons and the varieties and extremes of temperature enable India to produce every variety of crop that grows in the world. So India is called the *EPITOME OF THE WORLD*.*

Economic effects of the Monsoons.

The monsoons exercise a great influence on the economic life of India. It does not only affect agriculture and the agriculturists but all industries and all classes of people. (1) On good monsoons depend the *export and import trade of India* as bumper crops leave a large margin for exports and also enable the people of India to purchase more quantities of foreign goods in exchange. (2) *The manufacturing industries* also thrive upon good monsoons as the people are put in a position to purchase more home-made goods. (3) *The purchasing power of the people* also increases provided the price do not fall much due to bumper harvests. (4) *Famines and scarcity* disappear. (5) *The condition of the finances of the government* (i.e., the revenue-income and the expenditure of the state) improves. *In case of a bad monsoon the chief heads of revenue suffer*, e.g., the railways

* In India we find not only the tropical and sub-tropical products, but the products of the temperate zone as well. The most important among the tropical products obtained here are: rice, coffee, millet, sugar-cane, cinchona, jute, spices, India-rubber and guttapercha; pineapple and other kinds of tropical fruits, the chief sub-tropical products of the temperate zone: wheat, maize, barley, pulses, potatoes, hemp and flax, and various kinds of fruits, and miscellaneous products like oil-seeds, indigo, gums and timber.—Banerjea.

having less crops to carry earn less, the *income-tax* collection suffers due to the fall in the income of manufacturers and traders who have ultimately to depend upon the success of agriculture; and as exports fall imports fall as well, so the *customs revenue shrinks*. For this reason, the *Indian Budget*, which is drawn in the month of March, long before the monsoon breaks out, has been described by a Finance Minister as a "*gamble in rain*".

Defects of Indian Monsoons.

The Indian monsoons have the following drawbacks :—

(1) *Evils of heavy rainfall*.—Heavy rainfall washes away the fertility of the soil and forms hard colloids on the land surface making it impossible, on the one hand, for nitrogen to enter into the soil and fertilise it, and on the other, for the rushing water to percolate easily down the soil so as to store the moisture necessary for the growth of plants.

(2) *Evils of too short monsoon periods*.—Both the summer and winter monsoons are of short duration, so the seasonal crops must mature quickly. As a consequence the production from land is both *quantitatively* (i.e., in quantity of produce per acre of land cultivated) and *qualitatively* (i.e., in quality of produce) inferior to that of other countries. India's production of sugar per acre is one-seventh of that of the West Indies, of rice only one-third of that of Spain, of wheat and barley half of that of England. In quality her cotton is inferior to that of America and Egypt, her tea and coffee to that of China and Brazil, her tobacco to that of Virginia, and so on.

(3) *Ill-distributed rainfall*.—The rainfall is not properly distributed over India. This has made necessary the extension of artificial irrigation in India.

IV. Geological Structure.*

Three kinds of Soils in India.

Nature has endowed India with three kinds of soils,—*alluvial*, *crystalline* and the *Deccan Trap Formation* or the *black cotton soil*.

* India, in the ancient geological ages was very different from what we find her now. Geologists say that in the earliest period she

(a) **Alluvial soil.**—The alluvial soil is the most extensive and agriculturally the most important and comprises the fertile valleys of the great river systems of India. The soil is chemically very rich. It extends over Bengal, some districts of Madras, Assam and Burma, the United Provinces, the Punjab, Rajputana, Sind, Guzerat, and the eastern and western coasts of the Deccan.

The alluvial soil varies from the porous, dry and sandy soil of north-western India (Punjab and Sind), from real samples of stiff clay of Bengal, to the non-porous, clayey soil of peninsular India. In tracts where showers are infrequent this soil, through which water percolates down very rapidly, becomes infertile unless the defect is redeemed by artificial irrigation. A large variety of Rabi and Kharif crops are grown on these soils.

(b) **The Deccan Trap formation.**—The next important soil is the *trap soil* which extends over the whole of the Deccan and greater portion of Bombay, Berar, the western part of the Central Provinces and Hyderabad. On the uplands and on the slopes of hills it is poor in quality, in the lowlands it is more fertile and helps to grow cotton, wheat, millets and pulses.

True *black cotton soil* occurs within the area of Deccan trap and is also found in the river valleys of Bombay and Madras. It is called black because of its colour and is peculiarly suitable for the growth of cotton. It is extremely

was represented by the southern peninsula and was connected with Africa by land; while over the area where now exist the regions of the Punjab and Rajputana, the tides of a wide and shallow sea ebbed and flowed. Then followed a series of volcanic cataclysms and violent earthquakes which entirely changed her natural features. Finally, through slow geological processes she acquired her present shape. The following are the six successive formations: (1) Achaean, (2) Vindhyan, (3) Gondawana, (4) Basaltic, (5) Tertiary and Cretaceous and (6) Alluvial. The various kinds of soils and minerals of India owe their origin and existence to them.”—Banerjea, *Indian Economics*.

rich in chemical properties, highly retentive of moisture and is suitable for growing both *rabi* and *kharif* crops.

(c) **The Crystalline tract.**—"The rest of India may be described as the *crystalline soil tract*."*

It lacks chemical ingredients and is deficient in the nitrates and phosphoric acid. On the uplands it is sterile, on the lowlands it is comparatively fertile. It varies so much in essential characteristics in different parts of the country that it cannot be generally described. Rice grows abundantly when this type of soil are well-irrigated by canals.

A Lesson.—"In the midst of these vaying features one characteristic is found to be common to almost all soils, *viz.*, their *comparative dryness*. This absence of moisture in the land *makes the supply of water an absolute necessity in Indian agriculture*."†

Things that lie below the surface.

Geological structure, among other things, determines the location, variety, quality and quantity of minerals. India has a variety of supply but the quality and quantity are neither of superior vein nor abundant. India produces a paltry one per cent. of the world's production of iron, and only 2 per cent. of coal, 7 per cent. of lead, 3 per cent. of gold and only 0.75 per cent. of petroleum.

India produces coal, iron, petroleum, rock-salt, gold, silver, copper and zinc, lead, mica, manganese, cobalt, nickel, precious stones, diamond, ruby, saphire and other minerals. We would discuss them in detail later on.

V. Climate : it results from physical conditions.

India proper may be divided into two regions.

Excluding Burma and the Himalayas, India proper may

* Banerjea, p. 11.

† Banerjea, p. 12.

be roughly divided into two regions, the Northern or the Indo-Gangetic plain, and the Peninsular India.

1. The Indo-Gangetic Plain.

It lies north of the tropic of Cancer. Though situated in the same latitude, on account of their being placed at the two extremities, the dry and rainless Sind goes with a rainfall of less than 10 inches and would have been a dreary desert without an artificial irrigation, while humid Assam and moist Lower Burma register an annual rainfall of about 100 inches, and Cherrapunji can even show a record fall of 40 inches a day. So the severity of heat and cold differs in different provinces. *Extremes of temperature, i.e., bitter cold and extreme heat, are experienced in the dry northern plain while in humid Bengal and in Assam seasons are mild and temperate.*

2. The Peninsular India.

It lies within the Northern Tropical Zone. It has got a high mean temperature throughout the year and the variations at different seasons are comparatively insignificant.

The one characteristic, however, common to the whole of India between April and September, except at great elevations where it is delightfully cool and refreshing even in midsummer, is *excessive heat*, and between November and February, except in Peninsular India, is *extreme cold*.

This alteration in the temperature in the different seasons brings by its own action the relief—the monsoons, the south-west as well as the north-east, and leads to the adaptation by each province of its own peculiar agricultural system, its own staples and its own rotation of crops.

The extremes of temperature, we would find later on, is inimical to agricultural as well as to manufacturing industries.

But the greatest effect of Indian climate is to be measured by the influence it has exerted on the character of the Indian people. The hot and humid climate has an enervating influence upon the people, and as a result, Indians generally are incapable of hard work. "It has made the Indian character imitative without being inquisitive. As a

people, Indians are lacking in self-confidence and the dash and audacity that are necessary for and to ensure success. They want in effective action and decision."

VI. Flora and Fauna.

Flora.

We have already seen that due to differences in climatic conditions and to uneven distribution of rainfall in the different parts of India she produces the whole range of crops that grow in tropical, sub-tropical and temperate countries. We would make a detailed survey of them under Agriculture.

Fauna.

For purposes of cultivation, to serve as beasts of burden, and for dairy and food purposes cattle are of paramount importance. Cows, buffaloes, camels, donkeys, sheep and goats comprise the important fauna of India. Indian cattle is deteriorating particularly in regions of heavy rainfall where the rain-water washes away the salient constituents on which the animals thrive and also keeps submerged under water pasture lands for the greater portion of the year, as in Bengal. Good cattle is found in drier regions like the Punjab, Kashmir, Rajputana and Kathiawar. Camels are found in sandier desert regions. Besides milk, animals yield bones, hides and skins, and horns.

"Wonders could be done in India by scientific cattle-breeding and control, were religious scruples removed as to the killing and eating of flesh. It has been calculated that the annual loss due to the maintenance of old and defective cattle in India amount to no less than Rs. 176 crores, or about four times the income from land revenue."—Anstey. But such a thing is impossible.

Ordinarily, the cattle suffer from shortage of fodder and in the deltaic areas where the density of population is great and pasturage lands are rare, the quality of cattle is the worst. Deterioration of cattle is doubly bad as the health and strength of an over-whelmingly vegetarian people depend much upon milk which is their most nutritious food. Among our animal products, we may also mention ivory, feathers, honey, wax, silk and lac.

VII. Facilities of Communication.

The plains of Northern India are suitable for easy communication by roads and railways. The Indus and its tributaries are navigable all through by boats and by steamers at their mouths. The Ganges is the carrier not only of holy waters but also of half the trade of the whole of India. The Brahmaputra is also navigable almost throughout the whole of its length in India.

Peninsular India is, however, scoured with rivers and streams and makes communications by land difficult. The rivers again afford no better facilities as they have very wild courses and rocky beds and become swollen during the rains and get dry for the rest of the year.

The Indian coast-line, we have already seen, is so very precipitous and is so much serf-beaten and has so few indentations and natural ports and harbours that it does not afford good opportunities for communication with the rest of the world.

VIII. Economic factors: their improvement.

India has a far-reaching environment. It has its advantages and disadvantages. Some of the drawbacks may be removed by the energy of man but to others he must yield.

(1) NATURE OF COMMUNICATIONS.—*India is a vast country, scoured with streams and rivers and studded with hills and mountains. So communication is difficult and needs to be improved by roads, metalled and unmetalled, railways, posts and telegraphs, airways, good ports and harbours, steamships, etc.*

(2) LAND AND ITS PROBLEMS.—*Land is deficient in mineral matters and requires to be properly manured. Monsoon rainfall is not well distributed, so artificial irrigation is necessary. Heavy rainfall and short agricultural seasons affect injuriously the soil and the growth of crops. All kinds of soils are not favourable to agricultural production. They are generally dry. So irrigation is of paramount importance.*

(3) SUPPLY OF MINERALS.—*The supply of minerals is neither of superior quality nor of sufficient quantity.*

(4) INFLUENCE OF CLIMATE.—*Climate of India borders on extremes.* Severe heat and cold are alike inimical to agriculture and manufacture, so *attempts should be made to control the climate* by afforestation, etc.

(5) IMPROVEMENT OF FLORA.—*Vegetable production may be augmented* by the introduction of exotic plants, by the improvement of the existing ones, by scientific cultivation and by substituting cheaper crops by high-priced ones.

(6) IMPROVEMENT OF FAUNA.—*Cattle is deteriorating.* Through the supply of cheap and abundant fodder, by scientific cattle-breeding, by putting a stop to the slaughter of prime cows and by prohibiting the export of the better quality of cattle for meat purposes much might be achieved.

CHAPTER II.

THE SOCIAL STRUCTURE.

"The training of the average man is strictly in accordance with the social order into which he is born, and the social order owes much of its character to the rivers, the plains, the forests, the mountains, or the factory by which the occupation of the majority of the people is determined."

I. The Problem of Population.

The People.

Nature and man together produce wealth. But man is always fighting nature to have a full command over her. So a study of the people or the composition of population of a country is instructive.

TOTAL POPULATION.

The population of India increased to 35 crores (353 millions) in 1931, from 31.89 crores in 1921, 31.52 crores in 1911, 29½ crores in 1901 and 20½ crores in 1872. *The rate of growth of population is very slow* and may be mainly attributed to the high death-rate that prevails in the country.

Of this total about 28 crores are Hindus and about 8 crores are Mahomedans, and the rest comprize Sikhs, Buddhists, Jains, Christians, etc. The males (18 crores) exceed the females (17 crores) by a crore. Seventy-seven per cent. of this population (*i.e.*, 27 crores) live in British India and 23 per cent. (*i.e.*, 8 crores) in Indian States. The Census of 1941 is expected to record a substantial increase of population.

India maintains a population which is nearly *one-fifth* of the world's total. India is the *most populous country of the world*. Her population exceeds that of China.

Density of Population.

According to the 1931 census the density of population per square mile was 248 in British India and 114 in the Indian States; the average density for the whole of India is 195 to the square mile.

CONDITIONS THAT FAVOUR THE GROWTH OF A LARGE POPULATION.

The density of population in a country depends upon a number of causes, the most important of which are (a) a healthy climate, (b) abundant and regular water supply, whether artificial or natural, *e.g.*, through irrigation or rainfall, (c) the natural fertility of the soil (as it is the case with Bengal), (d) abundant economic resources, *i.e.*, a large supply of raw materials, (e) cheap and easy means of communications and transport which help to extend cultivation or the manufacturing industries and also to bring about a better distribution of population, (f) high or low standard of life and comfort (*e.g.*, we witness a sparse population among nomads and a dense one among industrialized people), (g) political peace, order and tranquillity (such as has resulted from Pax Britannica in India), (h) special productive aptitude of a people and finally (i) the stage of economic development (highly industrialized and commercial countries can support more population than an agricultural country).

LOCAL DENSITY UNEQUAL.

Some of the above causes have led to the greatest density in some of the districts of the United Provinces and in Bengal and Bihar, while others have led to the paucity of population in Upper Burma, Assam and the North-Western Provinces.*

It is to be noted that while India on an average maintains 195 persons to the sq. mile, England and Wales maintain 695, Belgium 727, Netherlands 674, Germany 361, Japan 372 and Bengal 646.

India is still a Land of Villages.

About 90 per cent. of the Indian people live in the villages and only 10 per cent. in the town, the corresponding percentages in England are 21 and 79.

There are in all about 7 lacs of villages and 1,600 towns, of which 38 only have a population of over 100,000 each. Recently there has been an increasing tendency for a flow of population from the villages to the towns.

Distribution according to Occupation.

Population in India is distributed among the occupations as

follows:—People directly or indirectly engaged in *agriculture* comprise 66 per cent. of the population, *industries* account for a little more than 10 per cent., transport and trade about 6 per cent., public administration and liberal arts and professions about $2\frac{1}{2}$ per cent., domestic servants seven and a half per cent., and 'others' about 7 per cent.

Distribution according to Sex and Age.

There are 940 females for thousand males in India. In the bigger industrial towns like Rangoon, Calcutta, Bombay, Cawnpore, Delhi, Lahore and Karachi the *males greatly outnumber the females* and in some instances by as much as cent. per cent. This disparity is due to rapid industrialization of the towns and constant flow of male population to the industrial areas. This disparity has led to many city vices among industrial labourers.

The custom of seclusion (*pardah* system) among females *serves as a double-edged weapon*. It not only leads to vices among the single males, but make them home-sick and so they degenerate into a "floating, dilettante population, a worker by caprice." On the other hand, the *pardah* system makes the country lose the labour of about half the total population of the country.

Bad health of the Population.

The short tenure of life, the many tropical diseases to which we are so prone in India make the *total available supply of labour* inadequate in India. We get old early and our average expectation of life at birth according to the census of 1931 is 26.91 years for males and 26.56 years for females.

Coupled with these things, a bad climate, insufficient food, unhealthy surroundings, and evil customs do the rest. Epidemics, famines and poverty are surely and steadily undermining the health and strength of the population.

The Dynamics of Population.

The growth of population in a country depends upon (a) natural increase and (b) migration.

I. **Natural Increase.**—*The natural increase of population rests on excess of births over deaths.*

1. *Birth-rate.*—The birth-rate depends upon the climate and the standard of living. (1) In India the climate being hot, puberty is attained early and so the marriageable age is the lowest. (2) Marriage is not only *early* but also *universal* due to religious sanction. Almost half the total male and female population are married. Of the other

unmarried half among males three-fourths are under age of 15, and among females an equal proportion is under ten. (3) The *very low standard of life* prevailing among the people also encourages indiscreet and universal marriages. People are put in wedlock before they come to understand the responsibilities of marriage. *So the birth-rate is perhaps the highest in India.* (4) Illiteracy is another factor which leads to irresponsibilities in marriage and in the begetting of children.

2. *Death-rate.*—The death-rate, again, is appalling. (1) The infant mortality in India is the highest. Out of 1,000 children born in Bombay as many as 320 die in the first year of their life; in Bengal, the Punjab and the United Provinces the figures are 270, 306 and 352 respectively. "Due to indiscriminate and early marriages 50 per cent. of the infant mortality come within the heads of premature death and debility at birth." (2) Another reprehensible fact is the higher number of female deaths at the reproductive ages (15 to 40), *i.e.*, at the age when women bear children.*

II. Migration—

MIGRATION OF POPULATION.

Migration comprises the problems of *immigration* and *emigration*. Immigration to India from foreign countries has never been of any importance. The problem of emigration has, however, evoked considerable interest.

EXTERNAL MIGRATIONS: HOSTILITIES OF THE COLONISTS.

Under the 'indenture system' Indians began to emigrate to the self-governing and Crown colonies of the British Empire as early as 1840, in return for passages, wages and housing, etc. The colonists being afraid of Indian competition, of intermarriage with Indians, and of political domination by a swiftly multiplying Indian population began to ill-treat Indians through legislative disabilities in order to drive them out of the country. South Africa took the lead in the matter.

The rate of increase of Population.

The average birthrate in India (varying from 28 per 1,000 in

*"Inquiries into a large number of cases show that where the marriage of young people is consummated at an early age, a fairly large percentage of wives dies of child-birth, phthisis, or some other diseases of the respiratory organs or from some ovarian complication within 10 years of the consummation of marriage."

Burma to 44 in the C. P. and Berar) was 35.7 per 1,000 during 1926-30, while the death rate was 26.0 (varying from 20 in Burma to 32 in the C. P., leaving a survival rate of 9.7 per 1,000 per year). In England, during 1926-30, the annual average of birth rate and death rate were 16.7 and 12.1 respectively, leaving a balance of 4.6 only. The average excess of births over deaths in Europe is about 6 per 1,000, and in the U. S. A., 7.7.*

Expectation of life in India.

In countries with a high birth-rate and high death-rate there must be a rapid succession of short-lived beings to keep up the numbers, one generation being pushed out of existence before its time to make for the next. The census figures for 1931 show that "while the average expectation of life of a male in England at birth is 55.62 years, it is 26.91 years in India." The expectation for females is 59.58 in England and 26.56 in India.

Slow growth of Population.

Between 1872-1881, the period covering the first census in India, *due to famine mortality and its depressing effect on the birth-rate*, we find the population to increase by only 1.5 per cent. Between the period 1881 and 1891 (the period of second census) due to the absence of any exceptional calamity, population is found to increase by 9.6 per cent. Between 1891-1901 due to *famines and the bubonic plague* (which took a toll of one million human lives in five years), the growth was only 1.4 per cent. Between 1901 and 1911, 'a period of moderate agricultural prosperity', the increase was 6.4 per cent. Between 1911 and 1921 due to influenza epidemic, the increase was only 1.2 per cent. But during the period between 1921 and 1931 there has been registered a very high increase of 10.6 per cent.

It is said that in course of half a century population in India has grown by only 20 per cent. while in Europe it has increased by 7.9 per cent. per annum.

* The high rate of mortality in India is due to several causes,—famines, epidemics, diseases, want of proper food and good drinking water, insanitary conditions, and the impaired vitality caused by early marriage. Population increases during good seasons due to the diminution in mortality."—(Banerjea, *Indian Economics*).

Over-population is a 'State' and a 'Tendency'.

The old provinces, notably Bengal, Bombay, Madras, Bihar and Orissa, are already maintaining a much higher number of population than what an agricultural region can maintain. There is a very little scope for further extension of the area of cultivation in those provinces. As it is, we find a "two-third of the population occupying one-fourth of the total area." Thus the existing heavy pressure of population on land is a proof positive that *over-population exists as a 'state'*.

The evidences of rapid multiplication, on the otherhand, in newly opened Canal Colonies of the Punjab, and in the Sunderbun area in Lower Bengal affirm an unmistakable '*tendency*' of *population to grow fast*.

Thus over-population is both a 'state' and a 'tendency'. Prof. Radhakamal Mookerji says that even inspite of slow growth there is over-population in India. Pestilence and famine, malaria, plague, consumption and other diseases occur due to inadequate nourishment or sustenance which are the results of over-population.

But Dr. Banerjea does not believe in the theory of over-population. He holds that population is not increasing as rapidly as in some of the other civilized countries. Further, a growth of population is not undesirable if wealth increases in proportion. "*The real antithesis is not between population and food, but between population and wealth*. If wealth and productive efficiency do increase simultaneously with the increase of population, the country will be able to support a much larger population than it does at present. In India, more production and wealth would result from the rapidly growing non-agricultural forms of employment, more scientific agriculture, extension of cultivation in sparsely inhabited tracts and irrigation of dry and sandy deserts."

REMEDIES AGAINST OVER-POPULATION.

Improvement of agriculture and industries, emigration and birth-control seem to serve as potent remedies against over-population. But really speaking, the scope for extension of agriculture is extremely limited. Industries cannot be developed but very slowly. The Indian Emigration Act of 1922 has prohibited Indian emigration. The doors of other countries have been closed to India. Late marriage and exercise of moral restraint cannot solve the question thoroughly. It is doubtful whether birth control can be an effective remedy in an uneducated country. Education alone can create the sense of responsibility the growth of which will automatically put down the marriage-rate and birth-rate. Education on the one side, and better productive organisation on the other are therefore the possible remedies of the evil of over-population.

II. The chief Social Institutions.

Of the great social institutions of the Hindus, the two most important are the Caste and the Joint Family.

The Caste System.

The Indian caste-system implies that "Birth determines irrevocably the whole course of a man's social and domestic relations, and that he must through life eat, drink, dress, marry, and give in marriage in accordance with the usages of the community into which he was born."*

Merits of the Caste System.

(1) It has led to *specialization of employments* and so have *secured to some extent the advantages of division of labour*.

Prof. Bhatnagar holds the view that *originally the Caste system was not so rigid*, at least in the Epic period. Originally, he says, a person was invested with the holy thread, white, yellow or red, according as he was selected to be a Brahmin, Khatriya, or Vaishya, after a careful study of his natural aptitudes. The Sudra was not given a thread at all. "When the institution of social selection disappeared or at least ceased to discharge its function in right earnest, caste became a mere heredity-governed phenomenon."

(2) "Every man inherits a certain amount of skill from his parents and unconsciously imbibes much of the technical knowledge from the atmosphere of the particular profession in which he is brought up."

(3) "By limiting the influence of competition, it stands forth as a protector of the weak."

(4) Fair and proper *training of apprentices* is insured by it as father teaches trade secrets more willingly to a son than any other tutor.

(5) It serves as a *mutual benefit society* for its members. It trains up apprentices, promotes good feeling among the members, provides courts of arbitration to settle their disputes and punishes the wicked occasionally, regulates the rates of *wages* and *profits* of its members and not unoften helps the members in distress.

On the otherhand, Dr. Banerjea quotes Senart to explain *the origin of the caste as a case of social evolution*. The Aryan invaders always arranged that the hardest portion of the population should be drilled to combat the hostile aborigines. Thus arose the *Khatriya caste*. Performance of religious ceremonies and imparting of education was left to a more self-less class, the *Brahmins*. With the growth of civilisation, agriculture, trade and industries developed and they were exclusively left in the hands of *Vaishyas*. The conquered aboriginal tribes that were brought within the fold of Hinduism became *Sudras*. Sub-division among the castes is of later origin. Gradually, the caste became rigid.

(6) It has *prevented the deterioration of the higher races* by disallowing intermarriages with the inferiors.

Demerits of the Caste System.

(1) It makes *labour immobile and free choice as well as change of occupation difficult*. It also chains labour to occupations for which it might have no natural aptitude while in a different occupation it might have done better. But under the caste system, a man seems to be born with a profession, whatever may be his aptitude or leanings.

(2) Some trades however productive, profitable and useful they may be, being restricted to certain castes, *prevent higher intelligence from being brought upon them.*

(3) Caste limits one's prospects and thus *kills ambition and the spirit of enterprise.*

(4) The Indian Caste system *does not recognize dignity of labour* and has assigned too low a position to the artisans and labourers.

(5) *It limits the supply of labour in a trade and removes any chance of competition among them.* So under the system *people lose their adaptability to changed circumstances and suffer in consequence.*

(6) The caste-system *is not suited to large-scale production.* By this we mean that under large-scale production productive processes require to be minutely divided necessitating employment of labour of various kinds and grades of abilities and knowledge. But all and every kind of labour cannot be drawn from the self-same caste.

(7) *It chooses pupils and teachers by accidents of births.* Though the father is the most willing teacher he *is not always the best of tutors nor is the son the aptest of pupils.*

Prof. Bhatnagar says that the artificial social cleavage created by the caste system acts on economic life in three important ways.

(1) It has stood in the way of the development of common life amongst Indians and has led to the growth of an undesirable feeling of hostile contempt of one class towards another. (2) As movement of one caste into another is impossible, the standard of life of the socially lower groups fails to rise. (3) This social cleavage prevents the co-operation of different classes in the production of commodities.

The net result is that although the country is large, production on a small scale is the rule.

Remarks.—Dr. Banerjea thus sums up the problem :
—“The prevailing opinion seems to be that the advantages

are far outweighed by the disadvantages. There are some who regard the caste system as the chief cause of the economic stagnation of the country and the political enslavement of its people."

The future of the Caste.

It is a system ingrained in the very nature of a Hindu, and perhaps several generations must pass before it is destroyed root and branch. The recent anti-untouchability movement in its very inception took the shape of a challenge against the caste system, *e.g.*, in the shape of inter-dining, etc. But that was merely a passing phase and the inevitable reaction has already set in. It is, however, a matter for congratulation that for practical purposes, after making some allowances for certain kinds of domestic exclusiveness, *e.g.*, about marriage and inter-dining, *the fusion of the different castes for business purposes are almost complete.* Amongst the Indian Muslims though the caste tendencies have been imbibed as a contagion from the Hindus and are still visible, yet the "mobility from one grade to another is far greater than it is to be found anywhere among the Hindus." The tendency has thus been described in the well-known saying:—"The year before last I was a Jolaha, last year a Sheikh; this year, if the prices rise, I will become a Saiyad."*

Caste-Guild.

The caste-guild of ancient times partook of the nature of Mediæval Trade guilds though essentially they were different.

It regulated unnecessary competition among its members, decided disputes among them, encouraged efficiency, found employment for members and helped them in times of sickness, death, accident, etc.

It differs from the Mediæval guilds in as much as inclusion of non-caste men was prohibited within it, while in the latter infusion of new blood was always welcomed. The European guilds were characterized by expansion and development while the caste guilds catered for the respective caste and were exclusive, rigid and stereotyped.

Caste guilds certainly had once played their role well in view of the fact that they were instrumental in developing many of our wonderful handicrafts. They have decayed to-day. The trade guilds

* Bhatnagar—*The Basis of Indian Economy*, p. 80.

that supplant them are now very weak as the industries they represent are almost all in a decadent state.

The Joint Family.

In India, the family is the economic unit of society, as the individual is in the West. "An unsophisticated joint-family in India gives us a complete idea of how the idea of community of goods, and common production is likely to work, if realized in practical life on a large scale."

The essential feature of the system," says Dr. Banerjea, "is that the consumption of goods is common, and every member of a family shares in the prosperity or adversity of every other member." In a joint family, whether the share of the members be equal or unequal, the equal consumption of the family property by different members is sanctioned by law and custom and the smaller or greater need for legitimate expenses by any member is construed as the necessities of all.

But the growth of the idea of individual freedom, the improvement in the means of transport which has facilitated the breaking up of families and the migration of its members, and the laws of inheritance which do not recognize self-acquired property and make the hard-earned income of one divisible among all, *have led to the disintegration of the joint-family.*

There are two schools of Hindu Law, the Dayabhaga and the Mitakshara. In the former school, which prevails only in Bengal, the *Karta* of the family has greater control over joint-family property but each co-sharer can dispose of his share according as he likes. But according to the Mitakshara school which prevails over the rest of India the joint-family property has been made more secure. The share of each member remains unascertained unless there be a regular partition. The *Karta* can only alienate property for the benefit of the family or for legal necessity.

Merits of the Joint-family.

The chief advantages are:—(1) It secures on a small

scale the *advantages which a socialist or a communist longs for*. The members co-operate in production, each contributing his share according to his capacity and dividing the product equitably among themselves each getting his share according to his need.

(2) *It prevents unnecessary waste and reduces expenses by making the living cheaper.*

(3) *It affords food and shelter* to the old, infirm and helpless among its members, thus making unnecessary work-houses, poor laws, etc. "Children under the system," says Dr. Banerjea, "are not liable to be cast adrift into the world at a time when their physical and mental capabilities are as yet undeveloped. They receive a start which is a great advantage to them in their race of life."

(4) *It is an excellent field for the cultivation of such virtues* as unselfishness, charity, etc., among its members.

(5) *It avoids the evils of constant partition and repartition of properties.*

Demerits of the Joint-family.

(1) *It is not exactly of the nature of a partnership concern.* The equal right of unequal co-sharers to consume family properties equally, is apt to rouse ill-feeling in the minds of those members who earn more against those who earn less or nothing.

(2) *It encourages laziness.* Self-reliance is discouraged as the sustenance of every member of the family is assured under the system. *Drones are to be found almost in every joint-family in India.*

(3) *It serves as a check to accumulation of large capital* by too wide a distribution of individual earnings.

(4) *A joint property is apt to be neglected.* Every man's property is no man's property.

Causes leading to the break-up of Joint-family.

Opening of railways which brought in its wake Malaria was the first thin wedge that led to the breaking up of joint families. There was considerable movement of population from the villages to the towns. Next, the railways brought foreign competition to the doors and killed many a family industry. Growth of western education made men ambitious and restless. Finally, the laws of inheritance which made no distinction between patrimony and 'acquisition through learning', hastened separation among members in many a case. Rise in the standard of living which entails heavy costs for education, marriage, etc., do not also encourage the acceptance of responsibility by one earning member of a family for others who in their turn may not prove useful and willing co-operators.

Economic significance of the Laws of Inheritance.

Among the Hindus the two main schools of the laws of inheritance are the *Dayabhaga* and the *Mitakshara*. The former prevails in Bengal while the latter in the rest of India. Both the schools recognize the right of each son to an equal share of the ancestral property. Under the *Dayabhaga*, the father's right to ancestral property is absolute and he can even disinherit his sons. But under the *Mitakshara* the father and the son have equal vested rights, the latter can even enforce a partition of properties against the former.

Women do not inherit property in their absolute right except the *Stridhan* properties specially endowed by the husband or parents. Ordinarily, she inherits life-estates which she holds in trust for the next reversionary male heir.

Thus we find that under the *Dayabhaga*, property is constantly sub-divided whenever a member dies, while under *Mitakshara* so long as the family chooses to remain joint, the property devolves upon the members for the time being by survivorship and not by succession. Ultimately, however, the property may be divided by a regular partition. The

frequency of partition and repartition is very great in India, as the average length of life is short.

Again, among the Mahomedans, the law of inheritance recognises a large variety of heirs than the Hindu law, *e.g.*, not only sons but also daughters, parents, wives, or husband of the deceased are entitled to certain shares of the estate in their absolute rights.

The result is disastrous. Though the equal division of property, unlike the system of primogeniture, helps the distributive justice and favours the growth of a strong class of peasant-proprietors, the existing laws of inheritance do not help the growth of capital and, particularly in the field of agriculture, they lead to fragmentation of holdings with all its evils.

CHAPTER III.

THE VILLAGE SYSTEM.

I. The Village System.

The Village Communities.

From time immemorial the "village communities" were the units of administration as well as of industrial organization in India.

Sir Charles Metcalfe has thus described the village communities :—"They are little republics, self-sufficient and almost independent of outside interferences. They seem to last where nothing else lasts. Dynasty after dynasty tumbles down, revolution succeeds revolution: Hindu, Pathan, Mogul, Marhatta, Sikh, English, are all masters in turn but the village community remains the same."

Village Communities are in a Decaying State.

Though the village communities have become almost a thing of the past, they are still found in Madras and the Punjab in walled villages. It was not only the instinct of self-preservation that originally led to the formation of these village communities but social and economic factors also entered into consideration in grouping men into distinct communities.

An Indian village is in fact an aggregate of cultivated holdings with or without some waste area belonging or attached to it, and usually it has a central site for the dwelling houses.

The two Types of Villages.

Indian villages may be divided into two main types:—
(1) *Raiyatwari* and (2) the *Landlord village*.

1. Raiyatwari Villages.

Under the *Raiyatwari* system, the cultivators individually hold cultivating units directly under the Government Khas Mahal estates.

The village government vests in a hereditary headman (known as *Mandal, Patel, Reddi*), who is responsible for law and order and the collection of the government revenue. He holds a hereditary position and is remunerated by the grant of a plot of land. He represents the primitive headship of the clan by which the villages were originally settled. This type is the prevalent form outside Northern India.

2. Landlord Villages.

The landlord type of village is prevalent in the United Provinces of Agra and Oudh, the Punjab and the N. W. Frontier Province. *Here the village site is owned by a proprietary body or bodies, i.e., by an individual, or a family, or a group of an ancestrally connected families.* The co-proprietors are in general a local oligarchy with the bulk of the village population as tenants or labourers under them. The village government originally used to be administered by the *Panchayet* or group of heads of superior families. In later times one or more headmen known as *Lombardars* had been added to deal with the local authorities. In Bengal, Agra and Oudh and in North Madras and to a certain extent in the Central Provinces, Western Bombay, Assam, Ajmere and Berar there are landlord estates on a large scale.

Village Officials.

The headman, in both kinds of villages, besides being responsible for the collection of revenue and its remittance to the Taluq or Government treasury, as a village magistrate tries petty cases and maintains law and order in his village, and as a village Munsiff acts at a petty Civil Court.

Another village officer is the *Accountant* (called *Patwari* in Northern India), who keeps the village account showing the ownership of holdings and the payments due to government or to the landlord, and maintains the village map and is generally the scribe of the community.

Next, comes the *chowkidar* or village watchman. He reports crimes, arrests offenders, maintains a watch over bad characters and gives general aid to the police.

In the greater part of Bengal there are no headmen, and *Patwaris* do not exist except in a few places. The importance of village communities has been thrown into the shade and the influence of the village officers has been much undermined by the growth of

the zemindars in Bengal. The village system in fact has no vitality under the Landlord Estate (Zemindari) system.

Other Village Functionaries.

Under both forms of the villages mentioned before the people require the aid of certain functionaries, artisans and traders. So, in addition to the population directly engaged in agriculture, almost every village possesses a blacksmith, a carpenter, a potter, a barber, and a washerman, and most villages retain the services of some sort of holy men such as priest, astrologer, fakir, and others. But the most important functionary is the *money-lender* or the *grain-dealer*. In larger villages there will also be found seller of brass or copper pots, a weaver, a mason, a schoolmaster, a musician, a physician, an oilman, a leather curer, a sweet-meat maker, a shopkeeper selling oddments and we might add a jeweller besides the village servants who perform the menial offices.

Remuneration of Artisans and Officials.

The officials were originally remunerated by freeholdings of lands or by fixed fees in kind for their services to the community and to the members. The village officials are, however, now practically government functionaries and are remunerated by fixed salaries.

Panchayets or Courts of Arbitration.

Without involving themselves in any serious costs the village folk have settled disputes of all kinds from time immemorial at these courts.

Village Fair.

Another useful institution is the village fair (*Hat*) which serves as an economic bond of union among several neighbouring villages and has the effect of *widening the village market*.

Economics of Village Life.

The following are some of the chief characteristics of the economic life of a village:—

(1) Whenever means of communication were imperfect society distributed itself in *self-sufficing units*. (2) Market being restricted and production being on a small-scale *division of labour was naturally limited*. (3) There being no internal

or external competition, *prices were fixed by custom and were practically unchangeable.* (4) *Importations to the village were few.* (5) *Solidarity of interest and a sense of unity prevailed in the village.*

The village life was simple. Plain living and high thinking was the ideal. The simple pleasures of the poor were many but less costly.

The Transition.

Rapid changes are discernible in village life. The modes and requirements of life are changing due to the impact of Western influences. Improvement of communication has led to the break-up of the self-sufficient isolation of the villages and to a greater mobility of labour from place to place. Finally, money economy has replaced payments in kind. But still the transformation is not complete nor it is possible so long as the conservative influences at work do not wear out.

II. Influence of Status and Custom.

In India everyman is born into a certain status and it is almost impossible for him to wriggle out of it according to his inclination. Custom may be good or bad but in a simple society they protect the weak against the strong; they are however without the virtues of competition which help to bring out the best in man.

(1) On Rent.

The rate of rent is influenced by three factors, *viz.*, custom, competition and legislation.

In the early days of British rule custom was everywhere paramount in determining rent, and even now the influence of custom is comparatively strong. Rent does not necessarily rise in India with every rise in the prices of agricultural produce. "The rent legislation in India starts from a basis of custom, though accepting the legitimate influence of competition. It aims not so much at the curtailment of advantages naturally accruing to the landlords as at the maintenance of the *right already conferred on tenants by custom.* Custom, there-

fore, is still to a large extent the foundation of Indian rent.”
—Dr. Banerjea.

(2) On Wages.

Till the middle of the nineteenth century wages used to be paid in kind and naturally custom played a great part in determining wages to the benefit of the wage-earners. But things have changed. Competition is to-day more powerful due to growth of towns and greater mobility of labour consequent upon the improvement of communications. But in the villages, particularly in agricultural areas, away from railway communication where population has grown denser, a low customary rate of wages still prevails.

(3) On Prices.

There was probably never a customary price in India. In the isolated villages an abundant harvest produced extraordinary low prices while a failure of crops sent up prices much higher than can be reached now,—that is to say, *the laws of demand and supply were in full play only within each particular locality.*

But in consequence of present improved communications, the prices have now attained comparative stability and are linked together with central and wider markets and fluctuate simultaneously.

CHAPTER IV.

ECONOMIC RESOURCES OF INDIA.

I. Principal Crops.

The total value of agricultural crops in India is estimated at Rs. 1,500 crores.

The principal crops are:—

(1) **Food**, *e.g.*, Rice, Wheat Millets, Sugarcane, etc.

(2) **Oilseeds**, *e.g.*, Linseed, Mustard, Groundnuts, Castor, Coco-nuts, etc.

(3) **Fibres**, *e.g.*, Cotton, Jute, Silk, Hemp, and Flax.

(4) **Drugs and Beverages**, *e.g.*, Poppy, Tobacco, Tea, Coffee, Cinchona, etc.

Kinds of Crops.

There are two kinds of crops—*Kharif* and *Rabi*. The former which includes rice, cotton, jute, etc., are sown in June and reaped in October, and requires much supply of water. The latter which includes wheat, pulses, linseed, etc., is sown at the close of the monsoon and reaped in late winter or early spring, and requires less supply of water.

Food and Non-Food or Commercial Crops.

The above classification may be further simplified by dividing the crops into *food crops* and *commercial or non-food crops*. The latter comprise crops which are mainly raised as articles of home and foreign trade rather than for domestic food, *e.g.*, cotton, jute, linseed, etc. They are mainly exported as raw materials of industry.

PERCENTAGE TO CROPPED AREA.

Of the total cropped area 81 per cent. is under *food crops*, nearly 5 per cent. under *oilseeds*, about 8 per cent.

under *fibres*, and 5 per cent. under *drugs and beverages*. (The total is more than 100 as it includes areas sown more than once in the same year.)

I. Food Crops.

(1) Rice.

It extends over 30 per cent. of the total cultivated area of India covering more than 84 million acres. Rice grows mainly in areas of heavy rainfall, *e.g.*, in the deltas of the Ganges (Bengal), on the Bombay and Madras coast-strips and in Burma. There are two varieties of rice, *aus* and *aman*. The former is coarser and is produced in smaller quantities. Rice accounts for 85 per cent. of the total cultivated area of Bengal, 74 per cent. of Burma and 80 per cent. of Assam.

The bulk (84 p.c.) of the export rice comes from Burma. India exports only 5 per cent. of the total production. India's yield per acre (8 cwts.) is half of that of Japan and only one-third of Spain. Improved varieties have been widely introduced by the Agricultural Department. The annual output is over 30 million tons.

India produces about 40 per cent. of the world's production of rice and exports only 5 per cent. of her total production. For brewing wine, supplying food for Indians living abroad and for animal and human food both in Europe and Asia, rice is exported. Extension of cultivation in Italy and America, bumper harvests in Siam, Japan and Indo-China, and the deliberate and systematic attempt at adulteration in pre-War and post-War periods by Indian dealers and producers have heavily affected the demand for Indian rice in foreign markets.

(2) Wheat.

It is a rabi (winter) crop and grows in areas which have dry and pronounced cold-weather, *e.g.*, in the Punjab, U. P., C. P., Bombay, etc. There are *two chief classes of wheat*, *soft* and *hard*. Irrigation has extended its cultivation particularly in the Punjab. The total output is about 10 million tons. Russia, America, India, Canada and Argentina are the chief wheat producing countries, stated in order of their importance. India is thus the third biggest wheat producing country of the world. Though the Indian wheat is not of inferior quality the bad practice of admixturing dirt with it has

earned for it the bad name of 'dirty' wheat. In 1936-37, the acreage was 33 million and the output 10 million tons.

(3) Sugarcane.

India is the original home of sugarcane. U. P., Bengal, Bihar and the Punjab are the important sugarcane producing provinces of India. Unfortunately, Indian yield is less than one-third of Cuba, one-fourth of that of Japan, and one-seventh of that of Hawaii.

India is one of the largest consumer of sugar in the world (nearly 2 million tons). Due to the policy of protection extended to sugar industry, the industry, of late, has made great progress, particularly in Bihar and U. P. The total annual production of sugar in India is over 1 million tons and the imports have become insignificant.

(4) Millets.

Millets are grown extensively in almost every part of India. The chief varieties are jawar, bazra and ragi. It is used as food crops in the United Provinces. Millets are also used as fodder crop.

Other Foodstuffs.

They comprize Barley, Millets (Jawar and Bazra), spices, pulses and grams, etc. The total area under foodgrains is about 206 million acres.

II. Non-food or Commercial Crops.

Among non-food crops, the most important are the *fibres*, e.g., cotton and jute. Next come the oil-seeds, e.g., castor, linseed, mustard, etc. Finally, come *drugs and beverages*, e.g., tea, coffee, opium, tobacco, etc.

(1) Oilseeds.

The most important oilseed crops are Linseed, sesamum, Groundnut, Mustard, Rape, Castor, and Cotton seeds. They are found in different parts of India. Of the oilseeds, linseed is mostly exported, while only small percentages of other seeds are sent abroad.

The export of oilseeds is greatly injurious. Had the seeds been pressed in India, the oil-cakes would have gone

back to the soil as manure to recoup its exhaustion. Thus export of oil seeds amounts to exportation of the fertility of the soil. Some 20 million acres are under oilseeds yielding a total of 4.2 million tons of seeds.

Fibres.

(2) Cotton.

It is the chief fibre in India. The soil most suited to it is the black cotton soil of the Deccan (including southern Madras). The Bombay Presidency (Berar, Guzerat, Sind) is the most important cotton growing area. The Punjab also raises large quantity of cotton. *Egyptian and American cotton* are by far superior to the *indigenous variety*. The Egyptian variety requires much water, so the American variety has become very popular in the Canal Colonies of the Punjab. Nearly two-thirds of India's production is exported, and our best customers are Japan and England. The area under cotton is nearly 25 million acres and the yield 6 million bales of 400 lbs. each.

The indigenous variety is still a great favourite in as much as they *can withstand draught*, and being purely white in colour is *in much demand for adulterating wool*, and its local demand is *comparatively steady*. Again, the Indian yield of cotton per acre is only less than half of that of America and less than one-fifth of that of Egypt.

(3) Jute.

Jute is an important economic asset of India. It is a monopoly product of Bengal, there being no other outside competitor. It is mainly cultivated in Bengal (80 p.c.), Assam, and Bihar and Orissa. In normal years *three million acres of land are under jute* and *nearly nine million bales are produced*.

It is grown in areas which become submerged under water during the summer monsoon. Its production and price both fluctuate greatly. The total value of jute production normally amounts to about Rs. 100 crores a year, and from this product alone the average income of a Bengalee should have amounted to at least Rs. 15 a year. But almost the whole of this trade is in non-Bengalee hands, the actual cultivators deriving not much profit above their cost of production. The remedy for recent fall in the jute prices may be found in a policy of *restricted production*. The normal exports are about 3 million bales per year.

The present war at first gave the jute industry a stimulus. But owing to shipping difficulties and restriction of market, a slump soon followed. The Bengal Government passed a Jute Regulation Act in 1940 and under this Act, the acreage for 1941 has been restricted to one-third of the acreage in 1940.

(4) Silk.

Sericulture or the breeding of silk-worm and the production of raw silk was once a prosperous industry. The East India Company improved the industry with the help of Italian experts.

THE CHIEF AREAS AND THE KINDS OF SILKS.

The chief areas of mulberry silk production are the districts of Murshidabad, Malda, Rajshahi and Birbhum in Bengal, Dehra Dun and Partabgarh in the *United Provinces*, Kohat, Peshawar, Gurdaspur and the Kangra district in the *Punjab*, and *Kashmir*, *Mysore*, and the *Frontier Provinces*. In Kashmir it is a state industry and the Durbar has a well-equipped factory of its own. Assam is another centre of production, the chief varieties produced there are *eri* and *muga*. Tipu Sultan started the *Mysore* industry, which to-day produces 200,100 lbs. of reeled silk bringing in a profit of Rs. 10½ lakhs to the state. The *tasar*, *eri* and *muga* are the chief kinds of silk found in India. India exports annually nearly 1 million lbs. of raw silk.

CAUSES OF DECAY AND METHODS OF REVIVAL.

The causes for the decay of Indian silk may be attributed to (a) disease (pebrine) of silk-worm, (b) fall in price of silk due to foreign competition, (c) high price of mulberry leaves on which the worms thrive, (d) absence of state-aid unlike in other countries, (e) degeneration of the silk-worm, and (f) competition of artificial silk.

The revival of the Indian silk industry, 'is partly an agricultural and partly an industrial problem,' and there is much scope for co-operative organization in this industry. Also very little can be expected unless the problem is taken upon broad lines and for India as a whole (James MacKenna). The industry "has great possibilities, and with the adoption of proper methods of rearing, hatching and reeling, is likely to be a source of great wealth." (Banerjea). Protective duties were imposed in 1934 on imported silk.

Drugs and Beverages.

(5) Poppy.

THE 'PROVISION' AND THE 'MALWA' OPIUM.

Opium is cultivated mainly in Indian states. A portion is cultivated in British India. Cultivators take advances from the government officials and deliver the product at the Gazipur factory where it is manufactured for the market. The opium which is for export is known as '*provision*' or *export opium* and is auctioned at Calcutta. '*Excise*' opium is distributed from the factory for consumption within the country. The opium that is produced in Indian States is known as "Malwa opium". The net value of the trade has fallen from Rs. 6 crores to about 28 lakhs.

THE AGREEMENT AND THE PRESENT POLICY.

In 1908 the Government of India entered into an agreement with China not to export any opium to that country provided its cultivation was also suppressed there. As a result of that policy opium trade with China has gradually been reduced. The present opium policy of the India Government is governed by international agreement (Hague Convention) and the country is committed to the policy of completely abandoning the export trade for other than medicinal and scientific purposes.

(6) Tobacco.

It is chiefly grown in the Madras Presidency, Burma, Tirhut in Bihar, and in Bengal. In southern India a fair quantity of superior tobacco is grown and cured and cigar manufacture seems to have great potentialities in Madras Presidency. Burma cigars are still manufactured by the skilful fingers of the Burmese damsels. The export trade is valued at Rs. 80 lakhs.

(7) Tea.

When a mission was proceeding to China on the initiative of the East India Company to collect tea seeds and induce Chinamen to come to India to teach the cultivation of tea, indigenous tea plants were discovered in Assam. There has been a phenomenal expansion of the industry. More than half the area is confined to Assam, the other half is distributed all over India. The export trade is valued at Rs. 22 crores. In 1936-37, a total of 395 million lbs. was produced, of which 80 per cent. was exported. Tea Cess is collected by taxing

the exports which is spent by the Tea Market Expansion Board for the development of the trade.

(8) Indigo.

It was once the chief crop of Bengal. The introduction of synthetic indigo has destroyed the industry. The industry has now migrated to Bihar and the United Provinces. The aniline dyes are of inferior quality but they are cheaper. It is believed that botanical research may some day help the rehabilitation of the natural indigo.

II. Sylviculture: Forests.

Forests reproduce themselves rapidly but they can never keep pace with man's destructiveness, so the State needs undertake the responsibility of protecting forest areas. The rainfall in India is highly influenced by forests. It is a valuable national asset and as such must be managed by the State.

FOREST MANAGEMENT.—It was Dalhousie's far-sighted forest policy (1855) that is responsible to the highest extent for the conservation of one of nature's precious and cherished heritage. From 1860 onwards the organization and management of forests were rapidly extended to all British territories. But only with the establishment of the Forest Research Institute at Dehra Dun, forest research work has been seriously undertaken.

CLASSIFICATION OF FORESTS.

State forests are *departmentally classified** as (1) *Reserved*, (2) *Protected* and (3) *Unclassed or Public forest land*. Reserved forests are those which are to be permanently maintained, while protected forests are those which are to be protected for a limited period. Public forests are those which have been given over to the use of the public.

Economic Utilities of Forests.

"The influence of forests on the climate of the country and the fertility of the soil is of special interest in India."

* There are six classes of forests in India, *viz.*, the wet evergreen forests, the dry evergreen forests, the deciduous forests, the dry forests, the hill or alpine forests, and the tidal forests.

Forests are responsible not only for the absorption of rain water in the soil, and of preventing the soil from being washed away by torrential rains, but also for the supply of moisture to the air by transpiration from the foliage during summer months. *The forests thus form the headworks of nature's irrigation scheme in India.** They help to increase the fertility of the soil as they are capable of forming rich vegetable mould even from mineral soils. They also *reduce the velocity of winds* and protect cultivation against cold and dry winds. Forests also supply the people with forest products, *e.g.*, fuel, timber, fodder, raw materials for paper, resin, lac, turpentine, etc.

Improvements of Forests.

Dr. Banerjea suggests that "it is essential, therefore that by improvements in the methods of culture, by concentrating methods of working management, by the development of new uses and markets, and by greater attention to minor forest products, the forests of India should be made a very important source of her national income."

III. Principal Minerals.

India has lost her ancient metallurgical and chemical industries and to-day she is concentrating all her attention upon those minerals which can be extracted for consumption or export through the direct processes. She herself can supply all her mineral needs. The proper exploitation of the mineral potentialities of India still goes by default. The Industrial Commission opined that India can be self-suffi-

* "Indirectly we gain through forests greater equability of temperature, humidity and rainfall. Thus they regulate the flow of rivers, prevent floods, and furnish springs with a perpetual supply of water. Thus nature maintains through forests, the moisture necessary for the life of men and beasts."

cient so far as the maintenance of her chief industries are concerned. The values of the total annual production of minerals amounts to only Rs. 24 crores.

(1) Coal.

UNEVEN DISTRIBUTION: BENGAL'S SUPERIORITY.

Among the minerals coal comes first. Of the total coal raised in India 80 per cent. comes from the *richest and the most extensive deposits* in the Bengal Gondwana strata coal-fields,—Jheria and Raneegunj. Though coal may be found in every part of India, from Baluchistan in the north down to the Nizam's territory, and from the Punjab in the west to Assam in the east, those deposits are of little value. *So we may say that coal, the most important fuel for the industries, is very unevenly distributed.* As a result, the cost of transport from the pit mouth to the furnace rises in some areas by 400 per cent.

ADVANTAGES OF SOUTH AFRICAN COAL OVER INDIA.

The total output is about 23 million tons valued at Rs. 9 crores. More than 97 per cent. of the Indian coal is consumed at home. The import of South African coal has for some time been playing havoc with Bengal coal. Railway transport and bunkering charges add heavily to the price of Bengal coal in the Bombay market, while Natal coal is shipped to the western presidency at a much cheaper price. Further, the output of coal per man in India is only one half of that of Natal and one-third of that of Transvaal. Wastages in the process of raising coal is also very heavy. South Africa is also dumping her coal in India (*i.e.*, deliberately selling at a price lower than the cost of production).

India raises about 23 million tons of coal every year and employs about 2 lakhs of persons in the industry. The calorific value of Indian coal is inferior to that of Great Britain and her share of the world output does not exceed a paltry 2 per cent. The reserves of coal are, however, sufficient for many years to come.

(2) Gold

Almost the entire output (more than 99 per cent.) comes from the *Kolar fields in Mysore*. The output is about 330,000 oz. per year

valued at more than 3 crores of rupees. The credit of pioneer work in this field belongs to an Irish soldier of the Mutiny.

The *Nizam's mine at Hutti* in Hyderabad comes next but the amount produced is very small.

The greater part of the present *output in Burma* is secured by dredging on the Irrawaddy and by *washing the river gravels*. India stands eighth in the list of gold-producing countries and contributes only 3 per cent. of the world's output.

(3) Iron.

Up till 1900, the Ranjeeganj district of Bengal raised 90 per cent. of the total (50,000 tons) iron ores extracted in India. But with the assumption of work by the Tata's in Singhbhum and in the Keonjhar, Bonai and Maurbhanj States the total extraction of iron ore has leaped up to more than *2 million tons*. Mayurbhanj and Singhbhum contribute 50 per cent. and 40 per cent. respectively of the total Indian output of iron ore. Iron ore is also found in C. P., Bombay, Mysore and in Central India, and in small quantities in the Punjab, U. P., and in Rajputana. The estimated iron ore resources of India amount to 300 million tons, and it is asserted that Orissa alone would be able to supply not only the needs of India in iron but the whole demand of the Eastern markets.

Iron of very good quality is found in Madras but the absence of deposits of coal and limestone near at hand prevents it from being worked extensively.

(4) Petroleum.

It is found in two distinct areas, at either end of the Himalayan arc. In the eastern arc, in Assam and in Burma, are situated the most important oil fields which supply 90% of the Indian production, while on the western the supply is insignificant. India's share of the world production is less than one per cent. (0.75), valued at Rs. 5 crores. The average annual production of petroleum in India is about 300 million gallons valued at 6 crores of rupees.

(5) Mica.

India turns out more than half (three-fifths) of the world's supply of mica, and the mines of Hazaribagh, Gaya and Monghyr share with those of Nellore, over 99 per cent. of the total Indian output valued at about Rs. 1 crore.

(6) Manganese.

India now ranks second in the list of manganese producing countries. It is unfortunate that India exports the ore instead of manufacturing at least a portion of the ore into ferro-manganese. It is found extensively in the Central Provinces.

INDIA'S SHARE OF WORLD PRODUCTION.

India's output of coal is 1/12th of that of Great Britain and compose only 2 per cent. of the world production. India's gold is only 3 per cent. of the world's output, petroleum only 0.75 per cent., lead 7 per cent., and mica 65 per cent. In iron ore she occupies the second place within the Empire.

PROVINCIAL CONTRIBUTIONS.

Of the total value of minerals raised in India, *Burma* with its oil, silver, lead, zinc, tin, and wolfram claims 36 per cent., *Bihar* and *Orissa* with coal, iron ore, copper, etc., 23 per cent., C. P. (manganese) 8.6 per cent., *Mysore State* (gold and chromite) 7.8 per cent. and Bengal (coal) 7.6 per cent.

CHAPTER V.

AGRICULTURAL PRODUCTION AND FINANCE.

I. Indian Agriculture.

1. Importance of Indian Agriculture.

EMPLOYMENT, INDUSTRIES, PURCHASING POWER, TRADE AND FINANCES REST UPON IT.

(1) *Agriculture is by far the most important industry in India.* It directly employs 112 millions in British India out of a total of 169 millions, i.e., about 66 per cent. Directly and indirectly 90 per cent. of the population live on agriculture.

(2) *On the successful operation of agriculture depends the success of many of the Indian industries.* On better sugar-cane production depends the future of sugar industry, on better cotton the textile industry, and so on.

(3) *Increased purchasing power of the Indian people and larger demand for Swadeshi manufactured goods depend upon better and greater agricultural production.*

(4) *The favourable balance of trade depends upon greater agricultural production.* More than 70 per cent. of our exports consists of agricultural goods comprising food stuffs and raw materials of industry. So unless agricultural production be large, our exports would be meagre and the balance of trade will go against us.

(5) *The income of the government depends upon agricultural prosperity.* If harvests be bad, railways would earn less in freight, less income tax will be collected, land revenue collection would fall, posts and telegraphs would earn less.

On the other hand, agricultural depression will increase the expenditure in famine-relief, etc. In short, the whole of the finances of the Central and the Provincial governments would be affected. So the Indian Budget which is prepared before the rains, *i.e.*, before the monsoons, is said to be nothing but a '**gamble in rains**' because the whole calculation may be upset by an extremely bad or good monsoon.

A bad agricultural year is a bad year all round—for the government as well as for the people.

2. Condition of Indian Agriculture.

MAN AND NATURE (LAND).

Agriculture is by far the most important industry in India and gives employment to 66 per cent. of the total population of India. Nearly 90 per cent. of the rural population live directly or indirectly upon it. Indian soil is generally fertile. Fertility varies from the black-cotton soil of the Deccan and the Gangetic Delta to the sands of Western Rajputana. Lands may be classified as cultivated, cultivable, non-cultivable, and pasture lands. The total area under cultivation in British India is nearly 230 million acres.

Cultivation is either *extensive* or *intensive* and varies according to the density of population. In Bengal rice is cultivated intensively, while in Burma it is cultivated extensively.

The cultivated area is divided into *small holdings*, the method of cultivation is *primitive* and the *capital employed is small*. The cultivators depend mainly on rainfall. The landlords are absentees and the villages are neglected.

We have seen the Indian cultivator to be industrious and efficient but ignorant, unscientific and *too poor* to draft into his service the requisite quantity of capital.

TWO HARVESTS: PERCENTAGE OF FOOD CROP AREAS.

The *two main harvests* are *rabi* or the winter crop, and *kharif* or the summer crop. Production depends mainly on rainfall. Rabi crops require less water. Crops are classified into food crops, fibres, oilseeds, and drugs and beverages. The food crops occupy 81 per cent. of the total sown area, non-food crops account for only 19 per cent. of the total cultivated area.

The yield per acre is very low. Adequate attention has not been given to agricultural research by the government.

3. The Indian Ryot.

EFFICIENT BUT ILLITERATE AND POOR.

"At his best the Indian ryot is quite as good as, and in some respects the superior of British farmers." "The wealth of a nation lies not in the material at its command, *but in the energy, initiative and moral fibre of its people*; without these attributes no country can become permanently prosperous; with them, no unfavourable circumstances can long prove an insuperable obstacle." The Indian ryot is hardworking, patient, honest, fairly intelligent and not too conservative.

But he is illiterate and poor, and these two evils spell inevitable disaster. They are responsible for unscientific cultivation. The inherited experience of generations have however, taught him practices, like the rotation of crops, the raising of mixed crops, the keeping of lands fallow in some years, etc., which enable him to conserve the fertility of his land without the necessity of investing capital for its improvement. His poverty makes him quite incapable of using up-to-date implements, manuring his lands properly, using good seeds, etc. Capital and education are his two main wants.

HOSTILE NATURE HAS BRED FATALISM.

The well-known uncertainty of the monsoons coupled with his ignorance have bred in him a spirit of well-marked *fatalism* which in its turn has led to the general stagnation of village life. Thus the extreme dependence upon nature is helping to destroy the *morale* of the people.

Nature is hostile to Indian agriculture. The inferiority in production, both in quantity and in quality, cannot so much be traced to the agriculturists' inferior skill and knowledge as to the hostility of nature. *Nature plays her pranks in more ways than one.*

DEFECTS OF INDIAN MONSOONS.

First, heavy rainfall washes away the fertile crust of the soil; *secondly*, monsoon periods being too short, crops do mature very rapidly and so they are both small in quantity and inferior in quality; *thirdly*, rapid flow of heavy rainfall water does not allow time for the water to percolate down the soil, so the sub-soil cannot feed the plants with sap properly.

A well-distributed, light but frequent rainfall is advantageous to agriculture.

4. Drawbacks of Indian Agriculture.

(1) Land: Its Problems.

Water and manures represent in brief the ryot's main wants.

(a) *Irrigation.* The nature of Indian soil is dry, so artificial *irrigation is necessary*. Moreover, rainfall is not only fitful but is very unevenly distributed.

A little more than 50 million acres are under irrigation from all sources (both private and government). The irrigated area represents less than 20 per cent of the total cultivated area of India. For the rest we have to depend upon the monsoons.

(b) *Manures*. India being a very old country, the exhaustion of the soil seems to have proceeded far. So *manures* are necessary to improve the fertility of the soil, specially because Indian soils lack mineral matters. Two of the important sources of manure, *oil-cake* and *cow-dung*, are being wasted in India. The heavy exportation of *oil-seeds* amounts to an exportation of *oil-cakes* which is almost the same thing as the *exportation of fertility of the soil*.* As a result, the recouplement of the exhausted soil is hindered. On the other hand, *cow-dung* is being extensively used as domestic fuel. The practice is uneconomic. It should be released from its use as fuel. The rural people should be supplied with free fuel from the neighbouring forests. *Bone manures* are not very much used on account of caste prejudices. *Town soils and urine of farm animals*, which are good fertilisers are also being recklessly wasted. They ought to be collected in pits and utilised for manuring the soil.

(c) *Operation of the Law of Diminishing Returns*. It is often pointed out that the law of diminishing returns is in operation in India. It has been occasioned by the heavy pressure of population upon land, partly due to the rapid increase of population, partly to the destruction through machine competition of a large number of India's cottage industries, and partly to the increase in our exports of agricultural goods to pay for the manufactured imports.

(d) *Fragmentation† and Indebtedness*. *Fragmentation of holdings* is going on apace due to the operation,

*Dr. Voelcker says :—"There is a large export of seeds, cotton and other products, besides an increasing one of wheat, all of which remove a considerable amount of soil constituents."

† *Fragmentation and Sub-division of Land*.

Laws of inheritance in India which favour partition and repartition of properties among heirs, agricultural indebtedness which lead

among other things, of the laws of inheritance which favour frequent sub-division of properties. So *agriculture is small-scale* and the average size of an agricultural holding does not exceed two-thirds of an acre.

Indebtedness among the agriculturists is appalling. The rate of interest is exorbitant. There having also no *regulated markets*, the agriculturists cannot sell advantageously.

(2) Labour: its problems.

Labourers employed in agricultural operations are illiterate and there is practically no arrangement for agricultural education of the ryot's son. "It is said that at his best the Indian ryot is quite as good as, and in some respects the superior of British farmers." But we cannot ignore the fact that he suffers from lack of (1) physical fitness, (2) technical fitness, and (3) intellectual fitness. He suffers from many preventible diseases and due to illnesses like Malaria, etc., he loses at least half the number

to sale and resale of lands, breaking down of the joint-family, the loss of other non-agricultural occupations, the decay of village industries and the craze among people to invest their savings on land have led to rapid partition of holdings and too much reduction in their sizes. This has affected economic cultivation. It has also fostered frequent litigation among neighbours.

The peculiar system of land allotment in some parts of the country, specially in the Punjab, giving each villager a slice of every possible variety of fertility of land lying scattered all over the village, each plot being too small for economic cultivation, is also a great handicap to efficient cultivation.

Of the various remedies proposed, e.g., introduction of the law of primogeniture, alteration in the laws of inheritance, joint cultivation and management, etc. the most suitable seems to be the voluntary *consolidation of holdings* through co-operative organization such as of a consolidated single plot of land of an identical fertility instead of a number of scattered plots of every conceivable variety of fertility. (*Read, Causes of Agricultural Indebtedness*).

of his working hours in a year. He has no scientific education nor any general education.

(3) Capital: its problems.

Dearness of capital is the greatest handicap of the Indian ryot. The Mahajan lends only at a prohibitive rate of interest but still he is a *dangerous necessity*, as there is practically no other source of credit in the villages. The Mahajan is not only exacting but unscrupulous as well. Once a debtor, the ryot remains as such for ever.

Agricultural capital comprises seeds, implements, cattle, agricultural building, fencing, etc. Proper selection of seeds is never a virtue with the Indian farmer, partly because of his carelessness, and partly because of his want of information and lack of capital. He sticks still to his archaic instruments. Costly machinery and implements are outside practical questions with him. It is, however, to be remembered that as the fertility of the Indian soil is limited to the upper crust, deep ploughing instead of bringing a gain acts as a positive evil.

The *quality of cattle* is also poor. Proper feeding and suitable breeding seem to be the pressing necessity. Organization of co-operative credit can solve to a great extent the problem of agricultural indebtedness and the financing of agricultural industry.

(4) Organisation: Its Problems.

The problem of organization becomes important when production is carried on a large-scale and there is an extensive market to cater for. Indian agriculture, however, is organized to-day on the small-scale farming principle. As a result the farmer labours under a great handicap as a seller of his produce. For want of information and of means of rapid but cheap communication he cannot have a com-

mand over the market and has to depend upon middlemen who pocket the lion's share of profits. Co-operative Sale and Purchase Societies can only safeguard his interests.

5. The Bengalee Ryot.

The deplorable condition of the Bengalee ryot is illustrative of the general condition of the ryot all over India. It is a pity that 'the rich and well-watered' soils of Bengal cannot procure for her most industrious, painstaking and persevering children a double meal a day.

His chronic poverty.

An examination of the causes of indebtedness, says the Report of the Bengal Banking Enquiry Committee, show that litigation and improvident expenditure on social and religious ceremonies contribute but little to total indebtedness. The reasons of his improvidence are to be sought elsewhere. "*The real cause is poverty. Very little surplus is left to the Bengal agriculturist after meeting his bare necessities, and hence he is often compelled to discount his future income on any term to relieve present necessity.*" *Indebtedness is as much a cause as the result of poverty.*

The evils he suffers from are mainly these—

(a) *He has to depend upon the fitful rainfall which he requires not only in large quantity but at regular intervals.* Bengal being situated within the zone of constant rainfall, irrigation works cannot prove remunerative. The gradual silting up of the bed of important rivers and the raising of unscientific railway embankments have made Bengal a prey to floods. Sixty per cent. of his crops he loses in average years for the fitfulness of the season.

(b) *He burns his cowdung as domestic fuel and sells away the oilseeds he produces through the lure of high prices.* So the oilcakes which might have added to the fertility of the soil are exported. He, however, tries to recoup the fertility of the soil by a system of *rotation of crops* and by occasionally *keeping the land fallow*.

(c) *He is illiterate and obeys social customs and habits.* He is not extremely conservative. He is not slow to adopt improvements when it is demonstrated to him that a new process is paying. *Fatalism* proceeds from his dependence upon nature and illiteracy, and in times of epidemics all lessons on methods of prevention fall flat on him. This ignorance is also to a great extent responsible for his being *a prey to mahajans and middlemen*. He spends extravagantly without thinking of the morrow and accepts credit at a hard bargain from the middlemen during the period when the crop was maturing.

(d) *He is heavily indebted.* The ryot's proverbial *want of capital* can be solved only by the *organization of Co-operative Societies* in every village. However, the co-operative movement has not as yet touched the fringe of the population (not more than 6 per cent).

(e) *His health and strength is deteriorating every day.* Malaria, cholera, small-pox and other preventible diseases are taking their heaviest toll. The provision of good drainage, the supply of drinking water and milk, and the spread of primary and vocational education are the most pressing problems with him to-day.

A concrete example: the Jute problem.

Jute is the monopoly of Bengal. Less than one crore of cultivators produce Rs. 100 crores worth of jute every year. But due to want of organization on the part of the peasantry, the middlemen and jute-mill owners dictate their own prices of jute. Even in years of good prices, the commodity passes through so many hands before it reaches the actual consumers that middlemen take three-fourths of the price leaving only one-fourth as the share of the actual producers. When the present war was declared, the price of jute rose, but the major part of the profits went to the merchants and stockists.

If the peasantry only follow the mill-owners' practice of limiting the output and organize co-operative wholesale societies to control the output, and increase or diminish it according to demand, then the Bengalee peasant may hope to secure the pound of flesh which he so rightly deserves. But that is a very difficult job. A restriction scheme has recently been introduced by the Government, and the acreage for 1941 has been cut down to one-third of last year's acreage.

From our survey, we find, that much of the ryots' endeavours require to be supplemented by government help, while non-official organizations and an active sympathy of the educated community are essential to make any real advance possible and fruitful.

6. Poverty of the Indian Agriculturists.

The poverty of the Indian agriculturist is due to several causes such as *customs*, e.g., early and universal marriages due to religious sanction, the *improvident habit* of spending money on ceremonial and festive occasions, e.g., *sradh*, marriage etc., *ignorance* which has made him inefficient as a producer and also a victim to many of the preventible diseases, like malaria, cholera, small-pox, etc., the *decay of subsidiary industries* due to foreign and mill competition, and the *uneconomical rise in the standard of comfort* which he can never maintain by his present standard of income.

But the paramount cause of his poverty is the poverty itself. He, as we have seen (p. 52), has to live on his future income and has to pay interest for that. The solution of the problem lies, apart from all possible steps that the Government should take, in his change of outlook.

Hopefulness, freedom and the growth of a real democratic spirit can cure him of his spirit of fatalism and bring about a change in his attitude to life. Piece-meal suggestions for improvement of his condition can seldom prove

to be of any real value. (Read also in this connection, *Suggestions for Agricultural Improvement*, p. 56).

7. What is implied by improvement of Indian Agriculture?

It may mean—

I. That the present *total output from land is inadequate* and that it requires to be increased; or

II. It may mean that the *profits of agriculture should be conserved to the advantage of the ryots.*

1. *The Total Output from Lands may be Increased in Two Ways.*—It may be increased either (1) by *extending cultivation* to hitherto uncultivated areas,* or (2) by *increasing the output of the lands at present cultivated.* But the scope on the former head is very limited because very little cultivable virgin land is available in the older and bigger provinces. The other way in which the output can be increased is by making the land yield more per acre. India produces 34 bushels of paddy per acre while Spain produces 101. India's yield of sugarcane molasses per acre is one-seventh of that of Hawaii, and she produces half of what England produces of wheat and barley.

But if quantitative increase in production is to be our aim we should attempt to improve the factors* of production, land, labour, capital and organization. (Read, *Drawbacks of Indian Agriculture*, pp. 49-52).

2. Agricultural improvement may also mean the conservation of the profits of agriculture to the agriculturists.

* "The scientific method of cultivation requires large tracts of land, deep ploughing, perfect irrigation, good manuring and proper rotation of crops." "The native cultivators have nothing to learn so far as unscientific agriculture is concerned, and the adoption of scientific agriculture is wholly beyond his means."—Banerjea.

If the fruits of labour of the ryot go to the pockets of the middlemen then of what avail it is to improve production?

To displace the middlemen certain conditions and organizations are necessary.

The conditions comprise improvement of communication leading to the widening and linking of the markets, proper knowledge of the markets and of the nature of demand, of the available substitutes, etc. But the best organization which can bear the maximum of benefit is the organization of *co-operative societies for sale, purchase and financing*, establishment of regulated markets, and the formation of agriculturists' associations and the issue of agricultural journals.

8. Suggestions for Agricultural Improvement.

Dr. Banerjea says that the suggestions for the improvement of agriculture must be practical in their nature. "We may speak of the introduction of scientific method of cultivation but it involves large tracts of land, deep ploughing, perfect irrigation, good and proper rotation of crops. And this necessitates the expenditure of a large amount of capital which is beyond the means of the ordinary cultivator."

By botanical research and scientific investigation improved varieties of rice, wheat, jute, indigo and other crops are being introduced and they are yielding products from 30 to 50 per cent. more than before.

By co-operation and combination ryots can purchase on the hire-purchase system improved implements, better seeds, cheaper manures and cattle, can construct wells and can put themselves in command of funds without having recourse to the Mahajan.

Agricultural shows and fairs and demonstrations through model farms may be of positive advantage to the ryot. The latter is neither a relic of the past, nor 'a living emblem of inertia.' When the Indian ryot is fully convinced of the utility of a new process of production, of the

superiority of new types of seeds and implements, he will at once shake off his conservatism and would take to them.

Extension of irrigation and the adoption of the most practicable of dry-farming methods may also increase the quantity of production.

General and agricultural education imparted in agricultural schools and colleges to the scholars, particularly to the sons of agriculturists, may be productive of great good.

9. Government Measures to Improve Agriculture.

A short history.

In 1889 the Government of India appointed Dr. Voelcker, a German expert, to inquire into and report on Indian agricultural condition. The Report* is a landmark in the history of Indian agriculture. Next, the Famine Commissions of 1901 and 1903 reported that agricultural research was a crying need for India. In 1903, Mr. Henry Phipps, an American, made a generous donation of £30,000 to Lord Curzon for agricultural research in India and this sum became the nucleus for a fund to propagate agricultural education through colleges established at different centres in India.

The Government have adopted the following measures:

(1) IRRIGATION.—Government has done its part moderately well. Irrigation has converted the deserts of

* Dr. Voelcker's Report. He recommended (1) the extensive grant of 'takavi' loans for land improvement, (2) general and agricultural education for the cultivators, (3) extension of irrigation where needed and a careful survey of such requirements district by district, (4) experimental research regarding methods of cultivation, crops and manures, (5) trial and distribution of new implements among farmers, (6) distribution of seed, (7) supply of stud bulls to improve cattle breeding, (8) the creation of fodder reserves and (9) reservation of forests for ensuring the supply of wood fuel.

Sind and the waste lands in the Punjab into fertile cultivable areas. But much remains as yet to be done.

(2) PROTECTIVE RAILWAYS.—It has constructed protective railways for transportation of food crops, specially in times of famine, from areas where the harvest is bumper to areas where it has failed.

(3) REVENUE AND RENT.—It relaxes its demand when scarcity threatens. It has improved the rent systems. Ryots have been given some forms of proprietary rights in the land. They enjoy to-day 'fair rent' as well as 'fixity of tenure.'

(4) CHEAP AND EASY FINANCE.—The Government has passed the *Land Improvement Loans Act* and the *Agriculturist's Loans Act* and under them 'takavi' loans are given for improvement of land and extension of cultivation.

(5) THE CO-OPERATIVE CREDIT SOCIETY ACT.—The Government has passed the *Co-Operative Credit Societies Act* by the help of which the agriculturists have organized co-operative credit societies from which they can get loans at a low rate of interest, the debts being repayable in small instalments extending over a comparatively long period of time.

(6) PRIMARY EDUCATION.—For teaching the three R's to the agriculturists the Government is encouraging primary education.

(7) AGRICULTURAL DEPARTMENT.—The department has been organized and through the medium of co-operative societies, the Department is distributing improved seeds and also information about manures, etc., to the ryots.

(8) DEMONSTRATIONS AND PROPAGANDA.—Agriculture being a transferred subject *Provincial Departments of Agriculture have been organized* which carry on demonstration work and propaganda in the respective provinces.

(9) **MANURES.**—Government helps to diffuse information about manures through the Agricultural Department.

(10) **EXPERIMENTAL FARMS AND COLLEGES.**—They have been opened at different centres to impart higher agricultural knowledge. But they are merely academic in nature and are patronized by highly educated non-agricultural *bhadralogue* class people.

(11) **THE VETERINARY DEPARTMENT.**—It is trying to improve the breed of cattle by supplying better bulls to the ryots. It is providing hospitals for treatment of cattle-diseases.

(12) **IMPERIAL COUNCIL OF AGRICULTURAL RESEARCH.**—It is carrying on and guiding agricultural research and co-ordinating all research work in the whole of India.

(13) **MORAL SUPPORT OF THE GOVERNMENT.**—The Government is extending moral support in various ways. Government officials are taking interest in organization, etc.

10. Success of Agriculture.

The Agricultural Commission has thus opined:—"No substantial improvement in agriculture can be effected unless the will to achieve a better standard of living and the capacity, in terms of mental equipment and of physical health, to take advantage of the opportunities which science, wise laws and good administration may place at his disposal. Of all the factors making for prosperous agriculture by far the most important is *the outlook of the peasant himself.*"

II. Agricultural Indebtedness.

1. Nature of Credit: dear money, facile credit.

The agriculture of India, generally speaking, is in the

hands of small men and the capital required for cultivation is supplied "*in small sums by small capitalists to men of small commercial intelligence*" at a very heavy rate of interest. The system of financing agriculture in India, however, is almost an unmixed evil. The village *Mahajan* lends money in *small doses*, and only to those of his constituents about whose pecuniary circumstances he has intimate knowledge. Further, the heavy rate of interest he charges causes hardship to many who contract loans.* But, on the other hand, the ready *access to moneylenders* coupled with the *easy or facile credit* which a peasant possesses—*due to the readily realisable money value of crops* consequent upon the extension of railways and trade, and the *definite possession of some form or other of proprietary right in the land*—has made credit excessively wide.

Thus we see, "*on the one hand there is excessively dear money and on the other excessively wide credit and the agriculture of India suffers equally from the one and from the other.*"

The effects of these two evils are cumulative.

Easy credit tempts the peasant to borrow without limit and on every conceivable occasion, such as marriage ceremonies and other festivals, while the *high rate of interest*

***The Money-lender is a dangerous necessity.**

Sir Frederick Nicholson thus states:—"Some hold the view that on the whole the money-lender is rather beneficent and friendly, as a sort of partner with the ryot, supplying the needs of the latter, maintaining him in times of misfortune. Others, regard him as a beast of prey seeking everywhere whom he may devour. The truth, as usual probably lies between the two. As society and credit are at present constituted, *he fills an absolute gap, and is a rural necessity*. On the other hand, *he is most undoubtedly an expensive and dangerous necessity*. He has been found in India from time immemorial. But at present he can be slowly substituted."

(varying between 36 and 300 per cent.) that were charged by the moneylenders before the recent laws were passed prevented him from closing his accounts with the *Mahajan*, the debt continuing in most cases for generations. It is very aptly said that "*the agriculturist in India is born in debt, lives in debt, and dies in debt.*"

2. Magnitude of Indebtedness.

In 1897, Sir F. A. Nicholson estimated the agricultural indebtedness of Madras at Rs. 45 crores, and some thirty years *later* (1924-25), Mr. Darling estimated the indebtedness of the Punjab at double that figure, at Rs. 90 crores, the annual interest payable on the amount being not much less than Rs. 13½ crores, a figure which was three times the amount of the land revenue of the Punjab. Mr. Darling estimated the total agricultural debt of British India at Rs. 600 crores. The Central Banking Enquiry Committee puts it at Rs. 900 crores, which is fifteen times the total land assessment. The average debt per agricultural family in Bengal is estimated at Rs. 160. The pity of the situation is that an overwhelming proportion of this debt has been incurred for *unproductive* purposes. Recently the Reserve Bank has estimated that the real burden of agricultural debts have now become double of what it was at the time of the Banking Enquiry Committee's investigation. The main reason for this increase in the debt burden is to be found in the unprecedented fall of the prices of agricultural products and the appreciation of the value of the rupee.

According to Mr. Crooke's estimate, from 56 to 78 per cent. of Indian cultivators are in debt and two-third of the debts are secured by mortgage of land. The evil consequences that follow from this are that the *land has passed largely either by sale or by usufructuary mortgage to the hands of the money-lenders*, who are mere speculating investors always satisfied by quick return of high money interest and having no interest in agricultural welfare. ,

3. Causes of Indebtedness.

The causes which usually lead to agricultural indebtedness in India have thus been summarized by Prof. R. K. Mookerji in his *Groundwork of Economics*—

(1) *Unseasonable Revenue Demand*.—The dates of revenue payments are not always commensurate with the harvest season.

(2) *Agricultural Losses*.—These may be in the form of mortality among cattle due to epidemics, or floods and fire, etc. Such losses are unfortunately very frequent.

(3) *Easier Credit*.—While land values have increased considerably, the rate of interest has fallen appreciably because of the accumulation of wealth in many hands. The result is that the agriculturist, who to-day possesses through the boon of tenancy laws some form or other of proprietary right in the soil, is tempted to borrow more and more while the Mahajans who have become many readily offer them the required loans.

(4) *Dangerous Legal System*.—"The Famine Commission of 1880 opined that a *rigid and elaborate legal system* had too often proved only an additional instrument of oppression in the hands of the more wealthy or better instructed litigants, and an additional cause of ruin to the impoverished agriculturists." But as yet the laws have not been simplified and both the landlords and tenants are induced to frequent the law courts on every conceivable occasion of friction between them.

(5) *Improvvidence*.—Thrift was never practised seriously in India. The joint-family system encourages idleness for many. Again, 'the series of seasonal feasts and religious observances, as well as caste dinner on auspicious occasions, have stimulated family extravagance.'

(6) *Fragmentation of Holding*.—Frequent sub-division of holdings, we have seen, is inimical to the interests of the agriculturists. *Fragmentation*, i.e., constant sub-division of cultivable holdings into small fragments, prejudicially affects the productive power of land and also leads to many other economic and legal complications, e.g., small plots cannot be economically fenced, nor it becomes remunerative to irrigate it by digging wells or excavating tanks, etc. Frequent boundary disputes are also the outcome. The size of an average holding in India is about three-fourths of an acre. Co-operative consolidation of holding should be taken up in right earnest as has been done in Denmark and Germany. (Read, p. 50).

In addition to the above causes we may mention the following as contributing to agricultural indebtedness in India:—(1) Extravagant habits, (2) the habit of purchasing lands by borrowing, (3) growth of population (4) absence and also the decay of subsidiary industries, (5) debts of honour inherited from ancestors, (7) high rate of interest and dishonest tricks of money-lenders, (8) absolute dependence upon agriculture, and (9) heavy burden of land revenue, etc. The remedies for agricultural indebtedness lie in improving the above defects.

4. Remedies adopted in India.

In India the following remedies have been adopted to combat the evils of rural indebtedness:—

(1) *Curtailment of Peasant's Right*.—The Government have passed Acts in order to curtail the peasants' rights to raise money on his land, leaving in his hands all the credit needed to maintain a profitable agriculture while cutting off the further credit which tempts him to extravagant borrowing for purposes unconnected with cultivation. This has actually been done in the Punjab and Bundelkhand.

By the *Punjab Land Alienation Act of 1901*, a peasant in the province cannot sell his land to any one but members of certain agricultural classes who are recognised by statute as agriculturists. In *Bundelkhand* the Government cleared the estates of debts and restored them to the owners, coupled with a new provision limiting the proprietor's right of alienation. Mr. Lovat Fraser in his work on 'India under Lord Curzon and After' says that by the above Acts 'money-lenders, shopkeepers and professional men cannot buy lands from hereditary cultivators or hold such land on mortgage for more than 20 years without the consent of the State nor cause such lands to be sold in execution of a decree." Lord Curzon truly said that Shylock can no longer *take his pound of flesh in land*. In short, the Act has justified the promoters in as much as it has reduced sales and mortgages of land, has *remarkably increased its value*, has diminished the number of litigation and above all has saved the peasantry of the Punjab from social extermination.

(2) *Cheap Credit but with thorough Safeguard.*—

But the above measure does not offer a complete and final solution of the problem of agricultural indebtedness. The agriculturist must and shall have credit, if he cannot have it cheap, he shall have it dear. "The complete solution of the problem of agricultural indebtedness," says Sir Theodore Morrison, "appears to lie in some system *which will provide the peasant with facilities for borrowing at a low rate of interest, and at the same time devise safeguards against his inveterate tendency to borrow imprudently.*" To achieve the purpose our Government has tried to arrange for cheaper money-lending agencies to supply cheaper money to peasants.

The measures adopted are—

(a) The government itself lends money known as TAKAVI regulated by the *Land Improvement Loans Act of 1883* and the *Agriculturists' Loans Act of 1884* at 5 to 6¼ per cent. as against the ordinary rate of 24 to 48 per cent. exacted by the village *Mahajan*. But the Government

advances are made only for specific purposes connected with agriculture, *e.g.*, improvements of the soil, purchase of seed, cattle, etc. They also entail more formalities than the village loans and the payment is enforced with greater rigidity, so hitherto they "have not had any very serious influence on the agricultural credit of the country."

(b) The Government is encouraging the peasants to form CO-OPERATIVE CREDIT SOCIETIES based on the Raiffeisen plan so successful in Central Europe. Such societies are playing a very important part to-day in solving the problem.

(c) In 1918, the *Usurious Loans Act* was passed empowering the law-courts to adjust interest rates on a fair basis when the rate actually charged appeared to be excessive.

(d) In recent years, different provinces have enacted laws to restrict the activities of moneylenders. Most of these laws have been modelled after the British Moneylenders Act of 1927. *The Bengal Moneylenders Act of 1933* laid down that when compound interest is charged the maximum rate of interest shall be 10 per cent. per annum, and when simple interest is charged the rate shall not exceed 15 per cent. for secured loans and 25 per cent. for unsecured loans. The moneylender is not to be allowed to recover from the debtor interest-arrears exceeding in amount the principal originally lent. The debtor can at any time demand a written statement of accounts from the money-lender and he can deposit the dues in the law-court if he thinks that the money-lender will make false entries in the account-book.

The Bengal Moneylenders Amendment Act of 1940 has introduced a system of licensing of moneylenders and lowered the maximum for different classes of interest rates. Compound interest has been made illegal, and the maximum rates of interest on *money-loans* are 10 per cent. and 8 per cent. per annum on unsecured and

secured loans respectively. For unsecured and secured *loans in kind*, the maximum rates are 25 per cent. and 15 per cent. respectively.

(e) Suggestions for the reduction of the burden of existing debts have often been made in the past, and steps have in recent years been taken in some provinces for scaling down the liabilities of the rural debtors. *The Bengal Agricultural Debtors Act of 1935* provides for the appointment of Debt Settlement Boards (each consisting of a chairman and four nominated members) in different local areas. A debtor or a creditor may apply to the Debt Settlement Board of his locality for an adjustment of a running debt or loan. The Board will call together the parties, examine all relevant documents and try to bring about an amicable settlement. But if this attempt fails, the Board, after considering all circumstances, will make an *award* containing its decision and this award will have the force of a court-decree. It may be noted that the intention behind the Act is good; but, in the hands of irresponsible and unscrupulous members of such Boards, the Act has become an abettor of all possible forms of corruption and injustice.

It should be noticed that debt conciliation or restriction of the activities of the moneylenders are only remedies of the negative sort. Suitable sources of credit are necessary for providing a cheap supply of capital to the cultivators, and, in this respect, the solution lies pre-eminently in a speedy expansion of the co-operative credit movement and the establishment of Land Mortgage Banks.

III. Co-operative Societies.

1. Co-operation defined.

Co-operation may be defined as a voluntary association of human beings, on a basis of equality, for the promotion of their common interests in better living, in better business,

in better farming. The avowed object of co-operation is (a) to eliminate competition between the weak and the strong, and (b) to remove the middleman and his profits. Co-operative societies may be formed for giving credit, *e.g.*, for lending money to its members, or for production, consumption or distribution.

2. Fundamental Principles of Co-operation.

(1) *Proximity*.—The society is to be absolutely local, the limits of a single village or one or two adjoining villages at the most must be the limit within which membership and operation of the society should be restricted. Mutual knowledge about the character, credit, and pecuniary condition of the members is essential.

(2) *Security*.—The loans granted by the society should have every chance of being realised. So executive offices should be held by members who are local people.

(3) *Solidarity*.—There is to be as small a share capital as possible, and all funds are to be borrowed on the collective responsibility or guarantee of all members and eventually of the reserve fund. Under such circumstances, the solidarity of interest among the members would become strong.

(4) *Facility*.—Loans are to extend to long periods, and the interest rate is to be lower than the market rate. The method of contracting loans is also to be easy. The provision that members alone can get loans "brings the banks at borrower's doors."

(5) *Thrift and resourcefulness*.—The societies are allowed to receive deposits preferably from their members alone, so the funds are usually the results of local thrift. The society is to inculcate the habit of thrift among its members.

(6) *Equality*.—All members are equal, each having one vote. So these societies are said to be the precursor of democracy.

(7) *Freedom of Association*.—Co-operating members should not be coerced to join a society but are to be absolutely left to their own discretion.

3. Posts and Telegraphs.

Thrift is the quality which induces a solvent member to save money out of his income so that he may purchase new shares or put in fresh deposits with the society. It also warns a debtor member

not to indulge in unproductive debts or default in paying his instalments. *Punctuality* is the habit which ensures success of a society. If loans are allowed to drift, then there would be a great strain on the societies' finances. Other members would not get loans, and the credit of the society would be undermined. *Dishonesty* of dealings, such as the motive to shirk the payment of debts or to act in collusion with the executive to secure undue advantages, are extremely reprehensible and antagonistic to the principle of co-operation. The *spirit of association, fellow-feeling* and *mutual understanding* are the qualities required in a co-operator. But above all an *intelligent appreciation* of the fundamental principles of co-operation is required in a co-operator.

4. Early History.

The Government believed that unless the spirit of self-help grow among the people, the palliatives like Takavi Loans or the organization of Agricultural Banks on the Egyptian model would not be of any permanent benefit. In the meantime the condition of the ryots became so pitiable that immediate action became necessary.* In 1892 Mr. F. A. Nicholson was directed by the Madras Government to inquire into and report on the possibilities of Agricultural Banking in Madras. Nicholson summarized his famous report in two notable words, "Find Raiffeisen." Raiffeisen was the pioneer of rural co-operative banking in Germany.

5. The Acts of 1904 and 1912.

Things could not be put off any further. In 1904 the Co-operative Credit Societies' Act was passed. Societies

* Mr. Wolff states:—"There are oppressive debts for which ryots were charged from 25 to 75 per cent, and sometimes 100 per cent., and even more—one Registrar instances a case of 1,340 per cent." Dr. Harold Mann states that 'in a typical dry Deccan village, the debts are a crushing load on the people.' In the Punjab, says Mr. Darling, only 17 per cent. are free from debt.

were classified as *urban* or *rural*. Ten or more persons were to form a Society. Each society was to have an executive committee with a Chairman. Its main business was to raise funds by taking deposits and loans (from non-members, government, other co-operative societies, etc.), and by selling shares in the case of urban societies. In the case of rural societies the liabilities of members were unlimited and no dividend was payable to members, nor there was to be any share capital. No member of an urban society was to hold more than one-fifth of the total shares, nor was his share to exceed Rs. 1,000 in value nor could he have more than one vote, nor was he ordinarily to get a salary when elected as an office-bearer.

The Need for the Act of 1912.

The Act of 1912 became necessary for many reasons, of which the most important was to cover all forms of co-operative societies other than those for credit (*i.e.*, merely co-operative credit societies). The classification of societies into rural or urban was also replaced by a classification into *limited* or *unlimited* liability societies.

Privileges of a Society.

The Societies as bodies corporate will have perpetual succession, they will have priority over other creditors, and they are exempted from income tax, stamp duty and registration fees. The shares of members will not be liable to attachment and heirs are to succeed to shares.

Benefits of a Village Bank.

Sir Frederick Nicholson stated that "neither the condition of the country, nor the nature of the land tenures, nor the position of agriculture, affects the one great fact that agriculturists must borrow, and borrow freely, annually, and continuously." This necessity, he suggested may be met by village banks which may confer the following advantages:—

Such banks, being very near to the borrower (1) would command exact knowledge about the clients, (2) would draw in local capital, (3) would work at the lowest expenses, (4) would conserve all the capital and the profits within the village, (5) would sell and purchase as agents the produce as well as the necessities of its members, (6) may serve as village granaries, (7) would watch over its members as to the utilization of loans, (8) would guard against fraud, (9) would inculcate the habits of self-help, thrift and association, (10) would help to develop a higher form of political and national life; and (11) would serve as intermediaries between the state and the individual in times of stress and famines, or in forging measures for agricultural or industrial developments.

6. How a Co-operative Society is Organised.

Ten or more persons who have attained the age of 18 can form a society. They must reside close together, particularly in the case of rural or unlimited liability society. Members can refuse admission to any villager whom they cannot trust. There is no share capital in rural societies, the capital being borrowed from central banks, and so no dividends are paid. In urban or limited liability societies, the capital is secured by issuing share capital and taking deposits, and of the profits not more than three-fourths are to be distributed among members, one-fourth being compulsorily transferable to the reserve fund.

Every member must use his loan for the specific purpose for which it is incurred. The rate of interest must not be much lower than the market rate otherwise it may encourage extravagant borrowing. Every borrower must find at least two members to stand as sureties for the ultimate repayment of his debt.

The management of rural societies is in the hands of a *Panchayet Chairman* appointed annually by the members from among themselves. In Urban societies there is also a *Secretary* and an *executive committee*. The committee

which is appointed every year grants loans to members on adequate securities. In rural societies the office-bearers are not paid. In urban societies the secretary may draw some remuneration.

The accounts are annually audited by the subordinate staff of the Registrar, who have at all times access to all the books, accounts, papers, etc.

Every society has bye-laws of its own sanctioned by the Registrar.

7. Classification of Co-operative Societies.

The societies may be classified as, (1) *primary*, or (2) *secondary*.

I. A *primary society* is either for (a) credit or for (b) non-credit purposes.

A primary credit society is again (i) agricultural, or (ii) non-agricultural.

A primary non-credit society may also be either, (i) agricultural or (ii) non-agricultural.

II. *Secondary societies* may be classified as (a) Unions, (b) Central Banks, and (c) Provincial Banks. (a) The Unions are formed by the federation of primary societies situated close by for the purposes of effective supervision and joint guarantee at the time of incurring loans. They have not played an important part up till now, except in Burma. (b) A Central Bank is a federation of primary societies within a certain area, generally within a district. Its membership may include both societies and individuals. (c) The Central Banks in a province are federated into a Provincial Bank.

The constituent members of a central bank are usually the primary societies. The provincial bank is situated near

the central money market and its function is to find cheap money for the central banks.

Primary Agricultural Societies comprise 90 per cent. of the total number of Societies in India. Of the agricultural societies, the societies for giving credit or loans to their members (i.e., *Co-operative credit societies*) are the most numerous.

Besides the agricultural credit societies there are *agricultural non-credit societies* e.g., societies engaged in the sale and purchase of agricultural produce, in the production and sale of implements and manures, in the consolidation of holdings, in insuring cattle, in supplying milk, etc.

Then there are *non-agricultural credit societies*, e.g., the co-operative credit societies in government and merchant offices, etc.

Finally, there are the *non-agricultural non-credit societies*, such as the Weavers' societies, the building societies, etc.

Functions of Co-operative Societies.

Under the head 'Benefits of a village Bank' we have generally enumerated the main purposes and functions of a village bank.

The objects of the Co-operative Credit Societies.

The objects are to supply cheap capital repayable in small instalments extending over a long period of time to (a) the agriculturists and to (b) the small industrialists, in order to protect them from the heavy rate of interest charged by the Mahajans.

How far the objects have been realized?

In addition to cheap credit the agriculturists and the small-scale producers (artisans) require—the former, water, manure, cattle, markets for produce and consolidated holdings, the latter, cheap raw-materials and cheap power.

Today the objects have been realized in the shape of co-operative irrigation societies, manure and seed societies, cattle purchase societies, consolidation of holding societies, etc. But 'all that has been done amounts only to a mere scratching of the surface.'

8. Progress of Co-operation.

The first Co-operative Act (for credit) was passed in 1904. The Act of 1912 recognized non-agricultural and non-credit societies. In 1915 the Maclagan Committee was

appointed to make a survey of the movement. By the Government of India Act of 1919 Co-operative Societies have been made a provincial subject.

Since 1914 the societies have rapidly multiplied. In 1914 there were only 16,000 societies. In 1933-34 the number increased to 100,000. While in 1914 there were only five societies for every lakh of the population, in 1933-34 they have increased to 34.1 per lakh. The membership increased from 6 lakhs to 88 lakhs, the working capital from Rs. 8½ crores to Rs. 96 crores. The average working capital of each society to-day is Rs. 6½ thousands, the number of membership is 40 per society and the capital per head is Rs. 175.

In 1934, the total number of societies reached 100,000 with a total membership of 88 lakhs, of which the agricultural Societies accounted for 92,700 with a total membership of 42¾ lakhs. The total working capital of the societies reached about Rs. 96 crores. The movement has touched only 6 per cent. of the population.

In Bengal the number of primary societies in 1935-36 was 19,790, with an aggregate working capital of 5.9 crores of rupees and a membership of 4½ lakhs. (J. P. Niyogi: *The Co-operative Movement in Bengal*, p. 11).

Dharmagolas.

The idea is to start grain stores by taking deposits of grains from cultivators and Zemindars, on which the agriculturist is to draw in times of need on payment of a reasonable interest thereon, rather than go to the Mahajan for a loan at an exorbitant rate of interest, or to a Bania for advances on crops before harvesting, or undergo the alternative of selling his crop in a lump at the harvesting season at a very low price to meet his accumulated liabilities.

Land Mortgage Banks.

Agriculturists require loans not only for current purposes but for the redemption of old debts and for permanent improvement of the soil. So they require large and long term loans. The solution of the problems through co-operative credit was found unavailing. Land Mortgage Banks were devised to undertake the work. Five such banks have been started in Bengal, one in each division, and

plans have been made for establishing five more. In a predominantly agricultural country like India they seem to have a great future.

Their Constitution and functions.

There are three types of Land Mortgage Banks:—(1) strictly *co-operative type* which are organised after the co-operative system. They also raise capital by issuing bonds bearing interest. It is an association of borrowers: (2) The *Commercial type* which works for profit and not for mutual benefit. They partake of the nature of commercial banks and are organised on the system of joint-stock companies. (3) *Quasi Co-operative type*. It is an association of borrowers and non-borrowers. The capital is raised by issuing shares and the liability is limited. It is also organised on the joint-stock system.

Among the objects for which these banks advance loans to agriculturists, are the redemption of old debts, the improvement of land and the methods of cultivation, and the purchase of land.

9. How Co-operative Societies are Financed.

The co-operative societies have for their foundation *primary societies* (rural). These primary agricultural societies derive their funds from (a) the entrance fee of members, (b) deposits of members, (c) loans from outsiders in the open market, (d) and loans from government. The urban societies have the additional source of raising funds by issuing share capital. The working capital of primary agricultural societies was Rs. 35 crores in 1934-35.

During the sowing season the funds get totally depleted while after harvests the loans are repaid and the supply of funds become excessive causing a large capital to lie idle. For *balancing the use of this capital*, central banks became

a necessity. The Act of 1912 created the central banks, the main functions of which are (1) the supply of capital, and (b) the balancing of funds of primary societies. The total working capital of central banks in 1932-33 was Rs. 31 crores.

But the central banks cannot completely fulfil the function of supplying funds. So it was found necessary to establish *Apex or Provincial Banks* in each of the major provinces except in the United Provinces. The relation between central banks and a provincial bank is much the same as the relation of the central banks to the primary societies. The total working capital of provincial banks in 1933-34 was Rs. 11½ crores.

10. Drawbacks of Co-operative Finance.

There are certain drawbacks from which co-operative finance is suffering in India. First, the agriculturists must be relieved of their debts before they can join co-operative societies. *Secondly*, the agriculturists require long term loans extending from two to seven years, otherwise short credits would be of little practical importance to them. To attain both the purposes Land Mortgage Banks may be of great use.

11. Weak Points of the Co-operative Movement.

Co-operative movement has not as yet touched the fringe of the population. In addition to the difficulties of finance which stood in the way of the popularisation of the movement, other drawbacks may thus be mentioned:— (a) Absence of the co-operative spirit engendered by ignorance and indifference of the educated and the well-to-do; (b) occasional misappropriations of funds; (c) the policy of drifting followed in paying back loans; (d) want

of regular audit and the defective system under which it is performed.

12. Benefits of the Co-operative Movement.

The above movement has rendered immeasurable benefits to India and these may be mainly grouped under *economic, social, administrative, political, and educational*,—moral and social advantages coming under the latter head.

Economic Benefits.

The agriculturists of India are now *saving more than 2 crores of rupees* a year due to the low rate of interest charged by the societies. Further, *money that had lain idle and capital that was hitherto inaccessible, have come into the hands of the agriculturists.*

Co-operation has made easy the work of the Agricultural Department also. 'It has provided the means whereby each improved variety of seed can be obtained from the Government farm for every village; it has enabled the purity of the seed to be maintained and the best price to be secured for the produce; it has placed within reach of the cultivator cheap manure and implements tested and approved by experts; it has supplied to cattle breeders bulls of superior strains for the improvement of the village herds; and it has provided the means by which useful information can be disseminated. *Agriculture and co-operation are fast developing a truly organic connection* and there can be little doubt that before many years this will be the case throughout India.

Mr. Wolf says that 'it brought *money to many a spot* thirsting for it, replaced hopeless insolvency by *solvency*, liberated many from the *usurer's* yoke and awoke many a *mahajan or Sawcar* to find the fact that their occupation is gone.'

The greatest economic advantage that these societies are destined to render, is, according to Sir Theodore Morrison, the *stoppage of rural depopulation*.

Educational and Social Benefits.

Co-operation educates men both *intellectually* and *morally*. Among co-operators there "are tangible reasons for learning to keep accounts, to sign pro-notes, to read pass books and receipts," a business training of immeasurable value to the Indians. Again, as the criterion of admission to a society is a man's own character, it has influenced each other's conduct and advanced each other's interests in ways previously undreamt of in this country. Drunkards and gamblers have been reformed or excluded from societies. *Self-restraint, punctuality, straight-forwardness, self-respect, discipline, contentment, and thrift have been encouraged*. In some areas *litigation* has markedly decreased. In others, the *common funds* have been used to start schools, to provide scholarships, to distribute quinine, to provide drinking wells, and to clean streets. The impetus of co-operative credit has established savings banks, benefit funds and provision for the poor. Further, many kinds of *social expenses, e.g., on marriage, funeral ceremony, etc., have been curtailed*.

Administrative and Political Benefits.

For better village administration, specially in matters of water supply, drainage, fighting with Malaria, etc., a village organization is necessary and co-operative societies can supply and is actually supplying that need.

For political purposes, such as working of the Reforms, an efficient electorate is necessary. Co-operative societies can educate the electorate.

CHAPTER VI.

CHANGES IN ENVIRONMENT.

I. Railways and Irrigation.

Railways and Irrigation.

While discussing the natural environment of India, we have seen that *India is a vast country* divided into well-marked portions, communication between which is difficult. Roadways and railways are therefore absolutely necessary for the purpose.

Equally important, as the problem of communication, is artificial irrigation which is specially necessary to protect the country against the fitfulness of monsoons. Moreover, the geological structure and the configuration of the soil, its dryness in general and the very meagre rainfall in particular tracts, *e.g.*, in Sind, Baluchistan, the Punjab and Rajputana, have made irrigation an absolute necessity.

The two problems, railways and irrigation, are very intimately connected in as much as they are potent factors in improving the environment of the country, and while the former helps to distribute the food products among the different parts of the country, the latter helps their production.

II. Means of Communication.

1. Roadways in India.

The total mileage of metalled and unmetalled roadways maintained at public expense was 267,391 in 1933 of which metalled roads constituted 76,857 miles. There are about

20 miles of roads per every 100 sq. miles and 84 miles for every lakh of population.

Classification of Roads.

The Indian roadways the improvement and maintenance of which have been 'transferred' to the provincial government under the Reforms, have been classified as (a) *arterial roads*, i.e., those which are maintained by provincial governments and traverse from province to province, e.g., the Grand Trunk Road; (b) *feeder roads*, i.e., those which are maintained by district boards and connect the important places in a district, and (c) the *village roads*, i.e., those which are maintained by Local and Union Boards.

Road Problem: Road Development Committee.

The rising cost of labour and materials and the increasing demand for new roads coupled with the appearance of a new factor, *the development of motor traffic*, particularly the astonishing rapidity with which motor traffic, both passenger and goods, has sprang up in every part of the country, has seriously aggravated the problem of roads traffic. The total number of motor vehicles registered in British India up to March 1934 was 202,960 of which 40,427 were buses and lorries.

A forward step was taken in 1927 when the Government of India appointed *Indian Road Development Committee*. It recommended the levy of a development tax by the Central Government of two annas on every gallon of petrol produced or consumed in India for financing its scheme of road development in as much as motor traffic leads to the heavy wear and tear of roads.

The Agricultural Commission stressed the fact that *if the tradition of corporate labour* which still exists in many parts of India, notably in respect of repairs to minor irrigation works in Madras, be utilized in the making and repairing of village roads then much might be done in this direction. The Commission also suggested that road-ways and railways instead of competing with each other, should follow a policy of co-ordination. They are to be regarded as complementary to each other. The loss suffered by Indian railways on account of road competition is about Rs. 4½ crores per year.

2. Waterways.

The *Indus*, the *Ganges*, the *Brahmaputra* and the *Irrawaddy* and their tributaries, are magnificent natural waterways navigable for

thousands of miles. It is stated that there are 26,000 miles of navigable waterways in the great river systems of Northern India.

The utility of the rivers has been greatly increased by the construction of *navigable canals* of which the *Buckingham canal* (parallel to the east coast) and the *Ganges canal* from Hardwar to Cawnpore are the chief.

3. Posts and Telegraphs.

The Post and Telegraph Department is under the Director-General of Posts and Telegraphs and is under the Department of Industries and Labour of the Government of India.

There are 20 thousand post offices, with a million employees and the mail line extends over $1\frac{3}{4}$ million miles. India is divided into 9 postal circles each under the charge of a Post Master General and his Deputies and Assistants. In addition to postal business, it carries banking business through the Savings Bank and co-operates with the public health authorities by selling quines in malarial areas.

The Telegraph Department has been amalgamated with the postal department and in addition to the managing of telegrams it administers the wireless. It has also developed telephonic communication.

The department is working at a loss and to meet its expenditure it has been forced to raise its rates.

4. Aviation.

In 1929, a regular air-mail service was established between Croydon and Karachi by the Imperial Airways Ltd., which also connect India with Europe and the Far East. Aerodromes are to be found in Dumdum, Karachi, Delhi, Lahore, Bombay and other places.

The services were extended and speeded up in 1938 and internal air services were also started. The war, however, has disorganised the air services. The French and the Dutch lines are no longer operating and the Empire Air Mail has also been suspended.

III. Public Works.

Formerly, the Public Works Department was regarded as a branch of the Army Department and the superintendence of public works was entrusted to a Military Board for each Presidency. Public Works were a neglected department for a long time. Lord Bentinck first conceived the idea of improving the Grand Trunk Road which extends over a distance of 1,500 miles and has connected Peshwar with Calcutta. It was Lord Dalhousie who pushed on the scheme vigorously.

A. Railways in India.

Early History.

In 1845, the E. I. R., G. I. P. R. and the Madras railways received sanction to build their lines. The celebrated minute of Lord Dalhousie accelerated construction. By 1860 eight English Companies were in the field. In April 1853, the first railway line (between Bombay and Thana) was opened. On the 15th of August, 1854, the E. I. R. opened 23 miles of railway between Calcutta and Hooghly.

First Period: the Guarantee System.

As it was considered not a sound economic as well as a commercial policy to entrust the construction of the railways in government hands, and as it was considered that the country would be benefited by the introduction of English energy and English capital for railway purposes, the construction of railways was left into the hands of private English companies. Ultimately, on the government guarantee of 5 per cent. interest, British capitalists were tempted to invest their capital in railway enterprises in India. The uneconomic nature of the system led to its abolition in 1869.

Second Period: 1869-79.

In 1869 the government adopted the policy of state construction of railways. But war and famine stood in the

way of success of the government policy and the government *after attempting to work the system for a period of ten years* reverted again to the system of guarantee which, however, differed materially from the earlier system.

Third Period: 1879-1925.

During this period a new form of guarantee system was introduced in which unlike in former times, the proprietorship rested with the government and not with the Company which constructed the railway. In 1905, the Railway Board* was constituted.

Fourth Period: Since 1925.

In 1925, the railway finances were separated from the general finances. The railway makes its own budget, borrows money on its own account, creates a reserve fund out of its profits and contributes a fixed percentage (one per cent.) of profits on the capital outlay to the general finances of the country annually.

Management of Railways.

There are more than 43,000 miles of railways in India of which about 74 per cent. (31,800 miles) is in the pro-

* *Railway Board.* The Board prepare the railway programme of expenditure and consider the greater questions of policy and economy affecting the lines. Its administrative duties include the construction of new lines by State Agency, the improvement of railway management, etc. The Board was reconstituted in 1924 and at present consists of a Chief Commissioner as President, a Financial Commissioner and two members. The railways managed by private companies have their Boards of Directors in London. They are represented in India by an Agent who is assisted in his work by a number of officers. The head of the line is termed the Manager. When the federation will be established the functions of the Railway Board will be taken over by the Statutory Railway Authority.

prietorship of the government. Many of the important railways (about 45 per cent. of the total mileage) are being *managed* by the government.

It is to be remembered that though the major portion of the Indian railways is owned by the Government, the whole of the acquired railways are not managed by it. There are some railways which are both *state-owned* and *state-managed*, e.g., E. B. R., E. I. R., etc., some which are *state-owned* but *company-managed*, e.g., B. N. R., while there are others which are *company-owned* and *company-managed*, e.g., B. N. W. R. There are some *railways in Indian States*, e.g., the Bikaner railways. The B. N. R. and A. B. R. are going soon to be acquired completely by the Government.

The State and the Railways.

The railways are the property of the State. The major portion of the capital has been advanced by the government. In 1935-36, state-provided capital invested in Indian railways stood at 714 crores of rupees most of which represented India's debt to England. The State exercise the option of supplying capital when so required by a railway system. The contracts with the railways may generally terminate at the option of the government. The government also exercises a good deal of administrative control over the railways.

The chief objects on which control is mainly exercised and the way in which it is exercised are, (a) the rates and fare and the raising of fresh capital, (b) the inspection of accounts, (c) the power of direction over the companies to deposit all their capital whether on capital or revenue account into the treasuries, (d) exercise through the Secretary of State control on all novel expenditure, (e) and to direct companies to take the sanction of the Secretary of State when borrowing any capital above a specified limit.

Most of the lines worked by companies belong to the state, as the major portion of the capital has been advanced by it. Additional capital expenditure may be provided by the state or by the company according as the former directs.

Classification of Railways:—The Indian Railways are classified into the following groups:

(a) *Commercial railways* which are constructed to help easy and rapid transportation, to develop trade and industry, and to facilitate movement of population.

Upon the state-owned and state-managed railways, the control of the Government is complete. Even on state lines worked by a company or a company line worked by the company the control of the state is substantial.

(b) *Protective railways* are constructed in special areas to provide for speedy transport of food stuffs during times of famine.

(c) *Strategic railways* are those which are constructed with the purpose of protecting the country against foreign aggression (particularly from the North-west.)

Financing of Railways.

In 1883, Rs. 3 crores were assigned by Government for railway construction. In 1893 it was raised to Rs. $3\frac{3}{4}$ crores. In 1908 the Railway Committee recommended an annual expenditure of Rs. $18\frac{1}{4}$ crores. The Act of 1925 removed all restrictions (except the sanction of the Secretary of State) and provided that a line which holds the prospects of yielding a clear profit of $4\frac{1}{2}$ per cent., should be at once undertaken for construction.

The Indian railways did not yield any profit till 1898 and the net loss till that year amounted to Rs. 58 crores. During 1914-19, the railways on the average brought Rs. 10 crores to the exchequer. The average rate of annual profit is 5 per cent. The railways yielded a total profit of Rs. 156 crores during the period 1898-1930. The present economic depression has very adversely affected the income of railways. During 1930-36, the railways showed a total loss of 41.63 crores. Since 1936-37, surplus have again been accruing. The Revised estimate for 1940-41 reveal a surplus of Rs. $14\frac{1}{2}$ crores and in 1941-42 the surplus is expected to amount to 11.42 crores of rupees. The capital invested amounts to Rs. 800 crores and the gross earnings to about 109 crores.

Economic effects of Railways.

ADVANTAGES OF RAILWAYS.—Railways have (1) made travelling cheaper, (2) relieved congestion of people by helping redistribution and 'equalisation' of population, (3) equalised prices all over India, (4) mitigated the rigours and horrors of famine, (5) helped the breaking down of caste prejudices, (6) helped the growth of foreign trade, (7) helped the big organised industries by supplying at a cheap rate fuel, coal, petroleum, etc., and other raw materials of industry, (8) facilitated movement of labour from one part of the country to another, and (9) secured employment for many a person (about 8 lakhs).

The influence of railways *on the moral and social life of the people* has also been great. The *political and administrative advantages* are immeasurable. For *internal peace and against external aggression* railways are indispensable. The Mutiny of 1857 proved that British administration of India could only be made possible by a thorough improvement of communication.

The utility of irrigation as a means of famine protection increases when it co-operates with railways. The one helps to produce, the other helps to distribute.

DISADVANTAGES OF RAILWAYS.—*The railways have its disadvantages as well.* (1) They have *killed many an indigenous industry* by inviting and distributing cheap but flimsy foreign imports in the interior villages. (2) They help the *export of our raw materials of industry and food-stuffs*. (3) By *raising embankments* they have obstructed the natural waterways which has resulted in the spread of malaria, kala-azar, etc. This has also led to many a devastating floods. (4) True it is that they have equalised prices, but they have also helped to raise the prices of some commodities.

State vs. Company Management of Railways.

Arguments against State management.

(1) *Arbitration would be difficult.*—In case of state-management of railways, the state will find itself often in difficulties when it will be called upon to *adjudicate in disputes between different railways* (e.g., state and company).

(2) *Continuity of policy is impossible.*—There is a difficulty in working the railways on *strictly commercial lines* by a staff which is pensionable and gets promotion by mere seniority. *Continuity of policy* cannot be expected to be present under such circumstances. It is also very difficult to *get rid of inefficient men* in government services.

(3) *Tendency to lavish expenditure.*—There is a tendency to *lavish expenditure* as there is no personal interest to observe strict economy.

Arguments against Company management.

(1) *Rates policy of companies is injurious to internal trade and to the growth of indigenous industries.*—They charge very low freights for goods carried to and from the ports to the interior of the country, while they charge very high rates for goods carried from one part of the country to the other. For example, the freight charge from Cawnpore to Calcutta is much lower than from Cawnpore to Patna.

(2) *Company management is not more efficient.* The majority report of the Acworth Committee observes as follows:—"We have found quite as much readiness to adopt new methods on state railways as on the company lines." The Government of India also maintain the "unanimous view that so far as efficiency is concerned, there is really nothing to choose between state and company management of railways."

(3) *The relations between the employer and the employee on company-managed lines are not very cordial.*—Strikes are more frequent and prolonged in company-managed lines, the worst offender in the majority of cases being the European staff.

(4) *All capital for Indian railways has been raised on the guarantee of the Secretary of State.*—Capital is being raised not on account of the efficiency of company management but on the guarantee of the Secretary of State.

(5) *The term 'Company management' is a misnomer.*—In other countries company management denotes ownership (through investment of the whole capital) as well as management. Mr. Ghosh estimated that out of a total capital outlay of Rs. 789 crores on Indian railways, the companies have only contributed Rs. 75 crores.

(6) *Indian interests, social, economic, industrial, political and religious, will be advanced more quickly and effectively by state management than by company management.*

(7) *The substitution of state management by 'companies of mere Indian domicile' would be of very little usefulness.*—The recommendation of the Acworth Committee that management by companies of foreign domicile is not desirable and that such management should be replaced by companies of Indian domicile will not go to improve matters in the least. Suppose, foreign companies or foreign capitalists float companies in India. Would it be of any real advantage to India?

Effects of Railway Rates on Industries.

Indian industrialists complain against the present railway rates policy on the following grounds:—

(1) *Low port rates.*—Low freight rates from the interior of the country to the ports and *vice versa*, lead to the export of essential raw materials, while it also helps the distribution of foreign imports at a nominal cost in the interior of the country to the detriment of home manufacturers. The freight on hides from Cawnpore to Bombay or Calcutta is much lower than from Cawnpore to Patna or from Lahore to Cawnpore. So a tannery at Patna is at a disadvantage so far as its supply of raw materials is concerned. The Acworth Committee supported the idea on the ground that a low rate follows from the economies of handling a large traffic.

(2) *Opportunities for discrimination in rates.*—Some 1,500 kinds of articles, which are carried by our railways, have been divided into sixteen classes only. So the same articles may be put in one class or in the other according to the whims of railway managers. Timber for the manufacture of matches may be put in the list of combustible articles and charged at a very high rate, while on the otherhand the same thing may be put under ordinary fuel and charged at a nominal rate of freight.

(3) *Scale rates*.—Each railway in India charges according to *scale rates*, i.e., charges according to the distance traversed in each separate railway and not according to the total distance run through all railways. As charges for small distances are high, industrialists have to pay a very heavy total of charges. For example, if a person sending goods from Calcutta to Bombay is charged on the total mileage, the charge would be small. But if each of the railways, say five in number, through which the goods pass charges according to the respective distances traversed in each of them the total charges necessarily would be a prohibitive one.

(4) *Block rates*.—Occasionally *block rates* are also charged. It is such a high rate that it prevents the traffic from passing on to a competing line. Suppose a person wants to send goods to Bombay from Howrah *via* E. I. R. up to Asansol and then to pass on the goods through B. N. R. line. In such a case the E. I. Ry. may charge such a high rate (block) between Howrah and Asansol that it may force the consigner to despatch goods directly from Howrah to Bombay *via* E. I. Ry.

Acworth Committee's Report 1920-21.

An Expert Railway Committee under the Chairmanship of Sir William Acworth made the following remarks and recommendations about the future railway policy.

(1) The present mileage of railways in India is physically inadequate and it had been so due to the inability of government to provide adequate funds; (2) the railway administration and the Railway Board need be remodelled; (3) the grievances of the public against railways for corruption among officers, for its failing to settle claims within reasonable time, for not providing adequate arrangements for third class passengers, etc., are real; (4) there should be an additional Department of Communications; (5) and the committee unanimously agreed that management of railways by companies of English domicile (i.e., companies operating from Great Britain) should be discontinued after the existing contracts terminate.

BUT THE MOMENTOUS RECOMMENDATIONS CAME FROM THE MAJORITY REPORT:—

(1) *Both state ownership and management are desirable*. Even management by companies of Indian domicile, as suggested by the minority report, is unacceptable and is productive of no good.

(2) *The whole capital for railway extension should be raised directly by the state by borrowing both in India and London.*

(3) *The railway budget should be separated from the general budget.*

(4) *Greater facilities are to be given for training Indians for the higher posts and steps should be taken to accelerate the pace of Indianization.*

(5) *In order to provide for a judicious rates policy, the Acworth Committee recommend the creation of a Rates Tribunal. It ultimately took shape in 1926 in the form of Rates Advisory Committee.*

(6) *To harmonise the railway administration with public opinion, the Acworth Committee recommended the creation of Central and Local Advisory Committees.*

The Wedgwood Committee, 1937.

The Indian Railway Enquiry Committee under the Chairmanship of Sir Ralph Wedgwood was appointed in 1936 to examine the position of the state-railways of India. The Committee reported that the financial results of the Indian State Railways were better than those of other comparable systems and that there had been a substantial advance in efficiency and economy of management since the economic depression. The Committee made a number of recommendations about repairs and workshops, personnel and salaries, auditing, traffic operation, etc. They did not recommend an increase in the rates and charges, but suggested that attempts should be made *to improve revenue by starting an organisation to assist trades in all possible ways.* A special inquiry into the *schedule-rates for goods-traffic* was recommended. As regards *rail-motor competition* the Committee suggested a system of licensing of motor-buses and the granting of road-powers to railways. Among other recommendations we may note the following: *faster goods trains; simplification of clerical formalities; starting of collection and delivery services; use of containers*

and refrigerator trucks; faster passenger trains; improved amenities for lower class passengers; institution of a Railway Information Office; amalgamation of the E. B. R. and the A. B. R., and of the Madras and South Marhatta Railway and the South Indian Railway.

B. Irrigation in India.

PAST HISTORY.—In the pre-British days irrigation works were not conspicuous by their absence. The grand Anicut of the Deccan is one of the greatest engineering works of the dim and distant past and is reputed to have been constructed in the early Christian eras. The Mahomedans also constructed some large canals in Northern India. But “during the early years of British rule the subject was neglected, and to this neglect was due the destruction of many noble works. It was not until the middle of the last century that the matter engaged the serious attention of the government.”

NECESSITY FOR ARTIFICIAL IRRIGATION.

Dr. Voelcker stated that the *nature of Indian soil was dry* while that of the British was *wet*. So artificial irrigation is the primary and very urgent necessity of Indian agriculture. Further, the uncertain nature of the monsoon rainfall and also its unequal distribution over the different parts of India have made artificial irrigation or water supply imperative. The country may be divided into three separate areas or zones,—*the area of constant rainfall*, e.g., Bengal, the Western Ghats, parts of Behar, and Burma, *the area of drought*, e.g., Sind, Western Rajputana, and the Western Punjab, and *the area of uncertain rainfall*, e.g., the area extending from Lahore to Allahabad and to some parts of Bombay. In the Deccan up to Mysore there is a total failure of rainfall once every seven years.

Irrigation in India.

At a cost of about Rs. 150 crores the Government has brought under irrigation more than 51 million acres of land

in British India, the total mileage of canals consisting both of main and branches is more than 75,000 miles. Irrigation by private enterprise also accounts for an equal area and the percentage of irrigated area to total area sown is about 19. Half the irrigated area is under canals, the other half being irrigated by tanks, wells and other means.

The Irrigation Report published in 1933 states that the irrigated area in British India is far larger than that of any other country in the world, the total for the United States being 20 million acres, of Japan 7 million acres, Egypt 6 millions, Spain $3\frac{1}{2}$ million acres and France, Chile and Java having about 3 millions each. But taking *area, population and the nature of industries* into account is India's record better than that of the aforesaid countries?

The foremost irrigated provinces are the Punjab ($11\frac{1}{2}$ million acres), Madras ($7\frac{1}{2}$ million acres), the United Provinces (4 million acres) and Sind ($3\frac{3}{4}$ million acres). With Bengal, a marshy province, the problems are not so much those of irrigation as they are of *drainage and silting*. There is the vital need of dredging some rivers and of keeping open some waterways in Central and Eastern Bengal.

The largest irrigation projects.

Irrigation in India has been cast on a grand scale. The Sukkur barrage, the biggest of its kind in the world, is designed to irrigate an area half a million acres greater than the whole area under cultivation in Egypt; its system of canals and water-courses will attain the stupendous length of 37,000 miles. The four other projects are the Cauvery Mettur dam in the Madras Presidency, the Sutlej Valley in the Punjab, the Sardar Canals in the United Provinces and the Tungabhadra Scheme. The net income from irrigation in 1932-33 was Rs. 8 crores, *i.e.*, $5\frac{1}{3}$ per cent. on the capital invested. The average annual value of the crops raised with the aid of government irrigation works was Rs. 137 crores or 10 per cent. more than the total capital outlay on irrigation.

Three types of Irrigation Works.

There are three types of irrigation works, such as (1) *Lift works*, e.g., wells, (2) *Storage works*, e.g., reservoirs and tanks, and (3) *River works*, e.g., canals.

LIFT WORKS.—*Wells irrigate* 30 per cent. of the total cultivated area of India and they are constructed in some cases by government but mostly by *private enterprise*. The chief well-irrigated provinces are the Punjab, the United Provinces, Madras and Bombay. Wells are either *temporary* (i.e., those which are abandoned after a year or two's working) or *permanent*.

STORAGE WORKS.—*Storage works* (or tank irrigation) are constructed usually by damming rivers and are generally managed by the State. This system prevails in the Madras Presidency where rivers become dry soon after the rainy season.

RIVER OR CANAL WORKS.—*River works or canals* are the most important. They are either *perennial*, i.e., have a steady supply of water all the year round, or *inundation*, i.e., are those the beds of which are higher than the low water-level of the stream out of which they are fed, the supply of water coming in only when the stream is swollen. Private enterprise (through companies) in canal irrigation has proved a failure in every instance.

Major and Minor Works.

Canal works are classified as *Major and Minor Works*.

The former are classified as (a) *Productive Public Works*, i.e., those which are expected to yield within ten years of their completion sufficient revenue to pay their working expenses and also the interest on their capital outlay, and (b) *Protective Works*, i.e., those which are designed as a protection against famine and the cost of which is provided out of current revenues or by appropriations from the Famine Insurance Grant.

Minor works are constructed from funds provided out of the current revenue of India. They include many old and indigenous works.

Benefits of Irrigation.

It benefits three parties, the raiyat, the landlord and the Government. The raiyat has not to depend so much upon chance monsoons, his average annual product has increased, and he has been able to enjoy more amenities of life. Outside the raiyatwari areas where the landlord system prevails, the landlord, due to increasing agricultural production is not only ensured of getting his rents duly but of getting an increased rate of rent. The Government like the landlords get more as well as an increased rate of revenue. The provincial governments get an income from irrigation rates, while the stable agricultural conditions created by irrigation lead to increases in the tax-receipts of the Central Government. Finally, the country gains by having larger supply of food, better nourishment for the people, fewer occurrences of scarcity and famine, a larger national dividend, and a contented and happy population free from squalor, miseries, and diseases.

Important irrigation works in different provinces.

In many districts of the Punjab there are extant the remains of many old canals which have fallen into disuse owing to the early neglect of the British Government to do its part of effectively irrigating the country. Of the modern canals in the Punjab, *Bari Doab* canal comes first with a mileage of 370 in main and branch canals and with 1,200 miles of distributaries. The *Chenab Canal* is the largest of the Indian system with a mileage of 400 in main canals with 1,200 miles of distributories. The other important Canals are the West Jumna Canal, the Sirhind Canal, and the Swat River Canal. The Triple Canal project which was recently completed is a marvel of engineering construction. It irrigates the Bari Doab. The *Chenab* which flows close by was found to be left with no surplus water after irrigating a certain area, so it was resolved to draw the surplus water of *Jhelum* into it by means of a weir and then to draw that water from *Chenab* and finally to irrigate the Doab. The *Sukkur Barrage* in *Sind* has been designed to be the biggest irriga-

tion work in the world. Up till 1934-35, the cost incurred for the Sukkur Barrage was Rs. 25 crores.

Special facilities for irrigation in the Punjab.

The scope for irrigation works is different in the different Provinces. In areas of *certain rainfall*, e.g., in Bengal, in some part of Bombay and in Central Provinces, they are not expected to prove remunerative. In areas of *uncertain rainfall* they are of urgent necessity.

The Punjab is watered by rivers which carry their supply not only from the Himalayas but from the tableland of Tibet and Central Asia. The rivers are well-distributed and the country is flat and the soil is alluvial favouring the construction of canals. But above all the human element which is to utilize the irrigation works is excellent. The Punjabis are a sturdy, painstaking, freedom-loving, honest and intelligent people who give of their best to work.

Of all the Provinces, the Punjab affords the greatest facilities for irrigation and a net work of canals has been constructed with profit.

In Sind, the greatest irrigation project of the world, the Sukkur Barrage has been constructed; the canal system leading off from the barrage is expected to irrigate $7\frac{1}{2}$ million acres and to yield a profit of $10\frac{1}{2}$ per cent., on capital. It is to feed the canals of Sind. In Madras irrigation system dates from very early times. In Bengal and Bombay the demand is not so pressing.

IRRIGATION COMMISSION OF 1903.

The Irrigation Commission of 1903 reported (1) that provinces where irrigation works *would prove remunerative* were regions not *liable to famines*, e.g., the Punjab, Sind and parts of Madras; (2) that tracts, where irrigation works were urgently needed to prevent famines, were regions where they would never prove remunerative, e.g., the Deccan districts of Bombay and Madras, etc.; and (3) that private enterprise irrigated a large area than the government.

The Commission recommended that the irrigation works should be constructed whenever they would be expected to prove a bulwark against famine, irrespective of costs. It also recommended a programme of work for the next twenty years at a cost of Rs. 45 crores.

They, however, expressed their conviction that though irrigation would be able to restrict the area and mitigate the rigours of famines, it would be unable to protect India completely from the visitations of famines.

Profits and Benefits of Irrigation.

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The yield from productive works (including works under construction) is $9\frac{1}{2}$ per cent., and from protective works barely 1 per cent. The return from minor works varies between 4 and 6 per cent. *The average yield from all works varies between 5 and 6 per cent.* By provinces the Punjab yields the highest, more than 13 per cent., and the return from Madras is 8 per cent.

Evils of Great Projects.

Big canals may produce the following evils:—

(1) Sometimes they may lead to *waterlogging*. It means the rise in the level of sub-soil water which renders land unfit for cultivation.

(2) Leakage of water during its passage from the canals to the fields saturates the soil and makes it a breeding ground for mosquitoes and leads to the spread of Malaria.

(3) The revenue of a canal may not pay the outlay.

(4) The cultivators are at the mercy of the subordinate canal staff.

(5) There is considerable wastage of water due to unevenness of land, want of embankments, etc.

Comparative merits of Railways and Waterways.

1. *Railways* supply speedy communication, while *canals* supply cheap transport as well as water for irrigation. The former distributes products, the latter both distributes and produces. Their utility, however, increases with mutual co-operation, and they are mutually dependent* for protecting the country against famines.

2. Railways have entailed considerable loss to the Government for a very long period and are not as yet yielding a substantial profit, while canals on the average are yielding a profit of 5 to 6 per cent.

3. Railways by raising embankments and obstructing natural drainage are adversely affecting the health of the country. New canals and re-excavation of the old ones are expected to improve the sanitary condition of the country.

Canal Colonies.

A large number of canal colonies which have sprung up on the canals of the Punjab are daily growing in population, wealth, valuation and revenue-yielding capacity.

*"Railways do not, like canals, increase the food supply of the country but *they render possible the transfer of surplus supplies to parts of the country which require them.* They are the only means of food supply in times of famine to many places where irrigation is not possible or could only be made possible at a prohibitive cost. *Again, the protective value of many of the most important canals depends on the existence of railways.* The smallness in the difference of prices in all parts of the country during the famines which have occurred since 1896 is the best justification for the policy of railway extension as a means of mitigating famines. *Irrigation works can do much but they cannot by themselves give as complete or universal a protection as is required.*" (Imperial Gazetteer).

In 1910 the peasant colonists were conferred permanent but inalienable tenant right.

The important canal colonies are the Lower and Upper Chenab canal colonies, the Chunion colony, the Jhelum colony, and the Lower Bari Doab colony. Population in these tracts which was formerly nomadic in nature, has multiplied hundred-fold and the value of an acre of land has risen from a few rupees to two or three hundreds.

The annual value of wheat exported from the Punjab has risen from Rs. 150 lakhs in 1890 to about $8\frac{1}{2}$ crores in recent years. Sir G. F. Wilson remarked that these colonies "are calculated to be the richest granaries of Asia."

CANAL COLONY SCHEME.—Before colonization in any area begins, the alignment of water-courses is made, the village boundaries are demarcated, roads are marked out and land is provided for grazing of cattle. The colonists are selected from congested districts and from hereditary tillers of the soil by the Revenue officers. Each individual gets from 40 to 50 acres of land.

CHAPTER VII.

INDUSTRIES: PAST AND PRESENT.

I. Industrial Development in Ancient India.

Evidences of history.

The Greek travellers, the Periplus, and Arrian and others bear testimony to the fact that India had a glorious industrial record in the past.

"At a time when the West of Europe, the birth-place of the modern industrial system, was inhabited by uncivilized tribes, India was famous for the wealth of her rulers and for the high artistic skill of her craftsmen."

M. Martin says:—"The grossamer muslins of Dacca, beautiful shawls of Kashmir and the brocaded silks of Delhi adorned the proudest beauties at the courts of the Cæsars, when the barbarians of Britain were painted savages. Embossed and filigree metals, elaborate carvings in ivory, ebony and sandal-wood; brilliant dyed chintzes, diamond, uniquely set pearls and precious stones, embroidered velvets and carpets, highly wrought steel, excellent porcelain, and perfect naval architecture were for ages the admiration of civilized mankind, and before London was known in history, India was the richest trading mart of the earth."

"Egyptian mummies of 2,000 B.C. have been found wrapped in Indian muslins of the finest quality. The Dacca Muslins were known to the Greeks as Gangetika."

Murray, the historian, observes:—"Indian fabrics, the most beautiful that human art has anywhere produced, were sought by merchants at the expense of the greatest toils and dangers."

We enumerate here some of the most admired urban industries of India. They are the Dacca *muslins*, painted *lac-ware* of Hyderabad (Sind), *ivory-carving* of Murshidabad, *shell-bracelets* of Dacca, *calicoes* of Lucknow, Ahmedabad, and Muslipatam, *gold brocades* of Benares, *silk embroideries* of Delhi and Agra, *shawls and carpets* of Kashmir and Amritsar, *gold-embroidered velvets* of Lucknow,

Aurangabad and Hyderabad, *painted woodwork* of Bombay, *sandal-wood carving* of Mysore, *lac-coloured metal work* of Moradabad, *brass work, marble work and enamel work* of Jaipur, *silver filigree work* of Cuttack, *inlaid marble work* of Agra, and *perfumery* of Gazipur and Jaunpur.

Causes of the Decay of Indian Industries.

Many are the causes which have contributed to the decay of Indian industries. The most important of them may be enumerated as follows—

(1) *The downfall of the Indian Princes* deprived the skilled workman of his chief customers.

(2) *England prohibited the importation of finer fabrics from India* which happened to threaten her woollen and silk manufactures; and it was done not merely by fiscal duties but by absolute prohibition through Acts of Parliament.

(3) *The persecution of Indian industries was not only followed abroad but at home as well.*

Prof. C. J. Hamilton states that at the subordinate factories of the East India Company the agents *used to force the weavers to accept advances, and then compel them to surrender their cloths at unduly low prices.* "As early as 1769," says Mr. R. C. Dutta, "the Directors of the East Indian Company wished the manufacture of raw silk to be encouraged and silk fabrics discouraged. They also directed that silk-winders should be forced to work in the Company's factories and prohibited from working in their own homes."

"Prohibitive tariffs excluded Indian silks and cotton goods from England. English goods were admitted into India free of tax, or on payment of nominal duty."

"The British manufacturer," said H. W. Wilson, "employed the arm of political injustice to keep down and ultimately strangle a competition with whom he could not have contended on equal terms. It was the fixed policy of the British Government and the East India Company in the early days of the British rule to discourage Indian manufacturers and to encourage the growth of Indian raw produce."

(4) The impact of western civilization *changed the tastes and fashions of the Indian people* and thus depressed the demand for the once famous Indian manufactures.

(5) The East India Company was thoroughly indifferent to the welfare of Indian industries while industries in England and other countries began to get State aid.

Mrs. Vera Anstey thus observes:—"The doctrine *laissez faire* policy of the Home Government was extended to India. It was thought inevitable that *India should remain predominantly agricultural*, whilst the Government wished to avoid the active encouragement of industries (*e.g.*, the cotton mill industry) that *competed with powerful English interests*. Hence, even at the end of the nineteenth century, all that the Government did to assist industry was merely to provide a certain amount of technical and industrial education, and to attempt to collect and disseminate commercial and industrial information."

"The consequence of the adoption of such a policy," says Digby, "was to force the population into entire dependence on the land and reduce the country to an economic condition involving periodical famines."

(6) It was the *Industrial Revolution* in the West and development of factories in India that completed the process. The *economies of large-scale production* such as cheap capital, cheap power and better organization led to the lowering of the cost of production. But the condition of production remained archaic in India.

The Awakening.

As the western education spread in India and too literary a form of education began to swell the number of the unemployed, a reaction followed. Mr. Justice Ranade declared that "*economic domination is far insidious and formidable than political domination and unmistakably paralyses the spring of national life.*" The march of events in the neighbouring Eastern countries, particularly in

Japan also buoyed up courage and enthused the spirit of nationalism. The boycott movement which followed in the wake of the Partition of Bengal gave a fillip to the revitalising of the indigenous industries.

II. Industrial Development in India.

A. Agriculture vs. Manufacture.

Some believe that India is destined for her natural and social circumstances to be an agricultural country. But the possession of facilities for agriculture cannot stand in her way of becoming a manufacturing country. The success of manufacture depends upon efficient agriculture. The evidence of history is in favour of India. In the second half of the 18th century, England had to levy prohibitive import duties to keep out Indian imports. Further, America which was originally an agricultural country has become one of the foremost manufacturing countries of the world. Agriculture and manufacture do not conflict but go hand in hand. Extremely low cost of living, cheap labour, cheap supply of raw materials and extensive home market are points in favour of India.

A purely agricultural country, again, has many shortcomings. Its prosperity is fitful, it loses much in exchange with manufacturing countries and its people generally go uneducated. But extreme industrialization is bad. In times of war, food supply may be cut off and in times of peace the supply of raw materials of industry may be stopped at any moment by tariffs.

B. Small and Large-scale Industries.*

* For Advantages and Disadvantages of Large and Small-scale Production, read *Elementary Economics*.

India has got both cottage and machine industries. The popular idea that small-scale cottage industries cannot compete with the large-scale factory system of production is not correct. In India though a large number of small industries have succumbed to foreign competition, there are still many which account for a large volume of the total Indian production.

The cottage producer carries on production in his own home, supplies all the labour necessary for production either by himself, or with the help of his wife and children and sometimes even by hiring a neighbour or two who have some idea of the craft. He also supplies all the capital necessary either out of his own funds or by borrowing, and he himself markets the product.

III. Prospects of Small-Scale Industries.

The Cottage Industries.

Cottage industries in India are particularly welcome and possess the following *characteristic advantages* which make for success:—

(1) *They serve as by-occupation to agriculture.*—The agriculturists who remain idle for a major portion of the year (9 months out of twelve), take to such cottage industries as rope-making, net-making, etc. Thus the crafts help to utilise perishable labour which might otherwise have been lost for good. The crafts also add to our income. So cottage industries are said to *serve as a second string to the bow of the agriculturists*.

(2) *They utilise a great deal of perishable labour.*—A good deal of women (pardanashin) and child labour that would have been wasted are being utilized by cottage industries. Moreover, the industries being carried on in

the midst of the family, the labourers devote more time to work than they would have been able to do in a factory.

(3) *They create a healthy moral atmosphere.* Every worker works before his mother, wife and sister, so he is free from the allurements of factory life.

(4) *Modern mechanical inventions and developments in applied science neutralise the advantages of large-scale production.*—Small engines driven by motor or electricity supply the cottage producer with cheap motive power. It is said that “the working cost of motor-driven engines is cheap. They are the veritable motors of the people carrying with them the germs of complete transformation of the small cottage industries.” The other advantages of large-scale production, *viz.*, economy of capital and economy of material can also be derived by the organization of co-operative credit and co-operative purchase and sale societies.

By harnessing hydro-electrical power, of which India has utilized only 2 per cent up to this date, small-scale production may be organized on a sound foundation. In some countries through electrical power grain is thrashed, butter is churned, water is pumped and food for cattle is prepared.

Why Cottage Industries have survived.

(1) *Proximity.*—Cottage producers supply the neighbouring markets so their cost of marketing is almost nil. Moreover, they can easily study the nature of demand for their goods and can adjust the supply to the demand.

(2) *Home advantage.*—The cottage producers work in a good moral atmosphere and render strenuous work irrespective of the amount of remuneration.

(3) *Supplementary earnings.*—Many of the cottage industries are carried on as a by-occupation to agriculture and serve as a second string to the bow of the agriculturist.

(4) *Cheapness of perishable labour.*—The labour of women, children, and unemployed men during off-season periods is available to the employer at a very low rate of wages.

(5) *Specialized products.*—Things which are required not to be uniform and of a standardized pattern and are mainly sold in small doses, and consist naturally of immense varieties,—the use or consumption of which might have been sanctioned on grounds of social, religious and communal habits, are not fit objects for the machine. Machines produce a large quantity of goods of uniform pattern.

How to revive Cottage Industries.

Of the remedies suggested:—

(v) *First comes co-operation in its various aspects.* Through co-operative organization, (a) cheap capital is to be secured, (b) the raw materials are to be purchased at wholesale prices and (c) the finished products are also to be similarly disposed of. By securing the supply of cheap capital, small motor or crude oil engines are to be purchased on hire-purchase system.

(2) *Industrial Loans.*—Loans should be granted by the Department of Industries. The Bengal State Aid to Industries Act of 1931 has provided for the appointment of a Board of Industries with authority to advance cheap capital to small-scale producers. Facilities should also be given to the cottage producers to purchase tools and appliances on a hire-purchase system.

(3) *Expansion of foreign markets.*—Through government agencies and the consulates in foreign countries serious attempts should be made to cultivate the foreign markets.

(4) *Technical education.*—The *workshop* method in which the apprentices learn the trade through work and

employment and learn to produce on commercial considerations only and over-look the side of art, is not the best system of technical education. The *Schools of Art* system which overlooks the commercial side and teaches *arts for the sake of arts* is not also the most desirable form of training. A union of the two methods, in which *the teaching of art goes hand in hand with the proper teaching of trade* is the ideal method of industrial training. Training of master craftsmen rather than of mere apprentices is necessary.

How to encourage and rehabilitate Cottage Industries.

(1) *Creation of a love for swadeshi goods.*—Of the other important measures that may be suggested for the improvement of cottage industries the most important is the *creation of a taste for home-made goods*. Partly due to cheaper prices and partly due to a vitiated taste among the anglicised upper classes for foreign goods irrespective of their artistic value, the ruin of our handicrafts has been consummated.

(2) *Education.*—Obviously, the artisan's conservatism, lack of ambition and inefficiency may be traced to his ignorance. He requires both general and industrial education.

(3) *Training of master craftsmen.*—In each industrial school provision should, therefore, be made for the instruction of a small number of pupils of superior merit with better educational attainments and with prospects of being able to command sufficient capital to start eventually in the trades themselves.

(4) *Financial assistance to cottage workers.*—Co-operative Credit Societies and in some cases the Director of Industries are to lend money on easy terms to the craftsmen.

(5) *State patronization.*—Only exhibitions, depots, showrooms, and museums would not create a spirit of

emulation among the artisans. A bolder policy of encouragement should be adopted by provincial officers.

(6) *Provision of markets.*—The Department of Industries should take steps to extend the markets of Indian handicrafts. The recent appointment of Indian Trade Commissioner in Hamburg, Milan, New York, Tokyo etc., is a step in the right direction. The Bengal Government has recently framed a scheme for an Industrial Credit Corporation which will advance capital to released detenus for starting small industries.

Recommendations of the Industrial Commission.

"The cottage industries have survived because they are so far adapted to their environment. But the artisan is not wholly uninfluenced by the industrial changes of the past century. His methods remain the same, but he uses now better tools and superior raw materials. The weaver has taken to mill yarn, the dyer to synthetic dyes, the brass and coppersmith to sheet metal, the blacksmith to iron rolled in convenient sections, in each case with the purpose of lessening his cost of production which however has always been successful in enlarging his market.

We are confirmed in the conclusion that cottage industries are a very important feature in the industrial life of India; that they are by no means so primitive as they are usually depicted; and that there is no real ground for belief that they are generally in a decadent condition."

IV. Some Important Cottage Industries.

The cottage industries of India employ more than a crore and a half of operatives.

1. Hand-loom Industry: Cotton.

Of the cottage industries, the most important is the *handloom cotton weaving*. The Cotton Textile Tariff

Board of 1931 estimated the number of handlooms working in India to be 20 lakhs. It engages about 25 lakhs of workers while the cotton mills do not employ more than $4\frac{1}{2}$ lakhs of operatives.

Under the handloom industry comes *Cotton weaving* as well as *Silk weaving*. Before weaving some processes like cleaning, ginning, pressing, spinning, etc., have to be gone through which by themselves are independent industries. Spinning was almost universal among the women in India before British machine-made textile began to invade the Indian market. The decay of cotton weaving industry has been instrumental in throwing out of employment a large section of the people. Since the Swadeshi movement the industry has been making steady progress and it reached its zenith during the Civil Disobedience movement. Dr. Gilbert Slater seems to support Mahatma Gandhi's partiality towards hand-spinning. "Hand-spinning and hand-loom weaving as a leisure time occupation in districts especially liable to famine, is capable of being organised as a defence against famine."

Power-loom weaving is evidently much cheaper than the hand-loom. *Still the latter is able to hold its own** because of the advantages which have been mentioned in pages 102—103.

Dr. Banerjea suggests the following measures for the improvement of the hand-loom industry:—(a) The spread of elementary education so as to raise the intellectual standard of the community;

* Dr. Banerjea enumerates the following causes:—"The amount of fixed capital needed is small; the coarse hand-loom articles are stronger and more durable than those produced by the power-loom; artistic and richly ornamented articles can be produced only by the handloom; the hand-weaver possesses considerable advantage in his inherited skill; he has a low standard of living and combines the industry with other occupations, notably agriculture; women, who, on account of social customs are generally debarred from working in the factories, can find a place in the industry; the hand-worker who works on his own account, works harder and takes greater interest in his work than the factory labourer."

(b) the use of efficient hand-loom; (c) improvements in preliminary processes; (d) co-operation among weavers and better organisation, (e) demonstration to the weavers of successful experiments; (f) cheap credit; (g) advances for improved appliances; (h) better touch of the weavers with the customers so that they may know the demand of the market; and (i) the establishment of small hand-loom factories and weaving schools."

2. Hand-loom Industry: Silk.

Sericulture comes next. It includes the rearing of silk eri, tasar and muga silk-worms. Indian silk is exported from the country for the manufacture of velvets and silk hats. The local silk is full of knots and loose ends and is of very unequal strength. Consequently, it gives the weaver much trouble to prepare it for the loom, and he prefers the even re-reeled silk imported from China.

The mulberry-feeding silk worm was introduced in India in place of one or other of the non-domesticated worms by the East India Company. As early as the time of Warren Hastings, India used to export more than 500,000 lbs. of silk. But during modern times the industry is in a decadent state partly because of the inferior quality of the article, (being full of knots), and partly because of uneven competition with state-aided industries in other countries. Artificial silk is no less a dangerous rival. Indian weavers generally weave re-reeled silk imported from China and other countries. In spite of the many drawbacks under which the industry labours, the chief redeeming feature is that it is a domestic industry and reaps all the advantages of cottage production.

3. Metal working.

Next to hand-loom weaving, comes *metal working*. Enamelled iron ware has substituted it to some extent but the loss has been replaced by the rapid increase of its use among the people due to their increase in real income. The

bell-metal of Khagra and the *Bidri work* of Murshidabad are still holding their own. But changes in tastes and fashions on the one hand, and the failure of the producers to move with the times, on the other hand, are prejudicially affecting the industry.

4. The dyeing industry.

The dyeing industry has felt probably more than any other the effect of modern technical progress and the synthetic dyes are replacing completely the vegetable dyes.

Some other cottage industries.

Some other important cottage industries which give employment to a very large number of people are:—

Cane and bamboo-work and *matting* industries of Jessore, Midnapur and Tippera, the *conch-shell* industry of Dacca, the *ivory* industry of Murshidabad, the *horn* industry of Jessore, *Lace-making* industry of Darjeeling, Hooghly, and the 24-Perganas, *pottery* of Krishnagore, *cutlery* of Kanchannagore, *furniture* industry of Chander-nagore, etc., and basket-making, net-making, smithy, rope making, oil pressing, rice-husking, gur-making, etc., are some other widely pursued cottage industries.

Some cottage industries are *subsidiary to agriculture* and are used as by-occupation by agriculturists during slack agricultural seasons. On the otherhand, there are some *finer* cottage industries which require special skill and provide *whole-time occupation*. For example, the technique, touch and experience that are required for high class weaving, moulding or ivory-carving can never be expected of rough-handed agriculturists.

Why India is industrially backward?

Though India possesses the natural advantage of having abundant supplies of raw materials, such as, cotton, jute,

sugarcane, hides and skins, salt, brine, wood and timber, mulberry silk worms, bamboo and grasses, coal and iron ore, etc., conditions which are favourable to the growth of diversified industries, yet we find her to be very backward in industries.

The reasons for industrial backwardness are not far to seek:—

(a) *Factors of production.* Of the factors of production, *land* lacks sufficient supply of water as well as mineral ingredients that make for fertility and the monsoon periods are short and precarious, so the production of raw materials is inferior in quality and insufficient in quantity.

(b) The *labour* materials are excellent but for want of training and education are inefficient and lack imagination.

(c) Capital is insufficient and shy of investment.

(d) *Business organisers* are conspicuous by their absence.

The defects of the last two factors are mainly responsible for the import of foreign capital saddled with foreign enterprise.

In addition to the above shortcomings, (e) the dumping of foreign goods, (f) the *discrimination of prices*, that is the excessive lowering of prices by foreign exporters in the Indian market to paralyse Indian production and then to recoup the loss by raising prices in other markets, (g) the inefficient system of *advertisement* and (h) the evil consequence which have followed on our being already *anticipated in our own markets* by foreign rival producers, and (i) the bad railway rates policy, etc., are some of the causes that have led to the moribund condition of our industries.

But of all the causes, the most deplorable is the laissez faire or 'let alone' policy which has been adopted by government towards our industries.

V. Organized (machine) Industries.

In 1935 the total number of large factories working in India numbered about 9300. The total paid-up capital of joint stock concerns in India is nearly Rs. 300 crores. Companies *registered* abroad with sterling capital but *working* in India have invested twice as much capital as the companies *registered and working* in India with rupee capital.

Of the machine industries, the cotton and the jute mills, the iron and steel factories, woollen and leather factories, paper mills, tea and coffee plantations, breweries, oil fields, gold mines, etc., comprise the chief ones.

Proper line of industrial development.

Large-scale industries have made considerable progress, but much of the development is by proxy, the capital as well as the management of the concerns being altogether foreign. So it is proposed that the *workshop system* of production helped by small machines which require less capital and less specialized management and which can be properly financed and managed by Indian enterprisers, should be preferred to the *factory system*.

Some organized industries.

1. **Cotton Mills.**—It is centred in the Bombay Presidency, though other provinces have some share. *The number of factories is 370 and the industry employs a capital of about Rs. 48 crores, the major portion of which is Indian.* Weaving is advancing rapidly, specially of finer counts. Exports of manufactured cotton is increasing though the imports of cotton goods are still much larger than the local production.

In 1896 a Cotton Excise Duty was imposed on all mill-made cotton goods in India to neutralise an equivalent amount of import duties levied on foreign imports to India, so that the Indian and the British producers may be put on the same level. It was the

most inequitable duty ever levied in India. But during the post-war period when there was a heavy fall in prices and foreign competition was acute, particularly that of Japan, the duty was abolished. Recently, Japan by depreciating her currency has brought about so much fall in prices of Japanese textiles in the Indian market that the India Government had to intervene and come to the rescue of the industry by levying heavy import duties.

Deficiencies of Indian Cotton Mills.

In addition to the above handicaps, there are other reasons that may account for the backwardness of the industry. They may be enumerated as follows:—(1) Dependence on foreign countries for better quality of raw materials; (2) the heavy cost of improving machinery; (3) inferior quality of raw materials, like coal, etc.; (4) bad distribution of the industry, nearly two-thirds of the mills and three-fourths of the looms being situated in the Bombay Presidency; (5) excepting Bengal which has got a humid climate very favourable to cotton weaving, the rest of India has got a dry hot climate unsuitable for cotton weaving; (6) India produces only a few kinds of cotton goods and a fall in its demand may most adversely affect the industry; (7) both labour and supervision are of inferior quality; (8) the rate for capital is high; (9) there is no concerted attempt to push Indian goods in foreign markets; (10) the system of remunerating managing agents of mills is very defective in as much as the latter are paid commissions not on net profits but on total outturn and thus are allowed to draw remuneration when a mill is working at a loss.

2. **Jute Mills.**—Bengal and Bihar and Orissa have practical monopoly of the cultivation of the raw material. There are at present 104 mills in India employing a capital of 28 crores of rupees. Most of the mills are situated on the banks of the Hooghly near Calcutta. *The industry is almost entirely in European hands and both capital and management are overwhelmingly foreign.* The industry has got a history of uninterrupted progress and excepting tea no industry declares such high dividends.

3. **Woollen Mills.**—Of the 10 mills employing a capital of about Rs. 3 crores, the two mills at Cawnpore and

Dhariwal alone account for 70 per cent. of the investment. *The industry is entirely financed by foreign capital and is managed by foreign enterprise.* Imports amount to six times the home production. The progress of the industry is limited by the supply of raw wool which is inferior in quality and meagre in quantity.

4. **Iron and Steel.**—The Indian Iron and Steel Company and the Steel Corporation of Bengal are two other big concerns in addition to the Tata Iron and Steel Company. *The latter was originally started with a capital of Rs. 2¼ crores which was mainly Indian.* The later developments have involved a total expenditure of no less than Rs. 12 crores. The total output of Indian steel is about 870,000 tons while the imports of foreign iron and steel have come down to only 360,000 tons. The Tata factory at Jamshedpur is the biggest steel works in the East. The Indian Iron and Steel Company has also been showing steady progress in recent years.

5. **Gold.**—India produces about 330,000 ounces of gold valued at more than Rs. 3 crores, the greater part of the total output being derived from the Kolar fields at Mysore. *The industry is entirely financed by foreign capital and managed by foreign enterprise.*

6. **Paper Mills.**—There are 10 mills in India, *mostly under European management.* India now produces only one-third of her total needs.

SUGAR.—In page 37 we have noted how India's production of sugar is quantitatively and qualitatively inferior to that of Java. This inferiority enables Java to oust Indian sugar from the Indian market and the Sugar Committee support the same view. The solution of the agricultural problem depends upon botanical research. But the industrial or manufacturing side of the question is of no less importance. First of all beet sugar competition from Germany and Austria has to be met. The Sugar Committee made clear cut recom-

mendations as to the organization of manufacture. Recently, the Government on the principle of discriminating protection has extended heavy protection to the industry as a result of which feverish activity has been found in India, particularly in the United Provinces, the largest sugar-cane growing province of India. India is now able to produce the greater part of her needs. In 1936-37, more than 1 million tons of sugar was produced in India. The imports have now come down appreciably. The present war has created an acute problem of over-production of sugar in India.

GLASS.—The manufacture of crude glass by the indigenous method has obtained from the distant past. Manufacture of bangles, oil-pots, ink-pots, etc., by blow-pipe methods, has also obtained for long.

In recent years there has been some development of the glass industry. There are at present 55 factories manufacturing glass-ware and these give employment to nearly 4,000 persons. Imports, however, are still large. In 1934-35 glasswares worth Rs. 1-1/3 crores were imported of which nearly half came from Japan.

7. **Tea.**—Northern India produces 90 per cent. of the total while Southern India contributes only 10 per cent. The value of the exports amounts to Rs. 22 crores. *Some eighty per cent. of the capital invested in the industry is foreign and it employs some 4 lakhs of people.*

VI. Foreign Capital in India.

Industrial development in India has been brought about to a large extent by foreign capital and enterprise. The total amount of foreign capital invested in Indian industries is nearly £830 millions. The propriety of using foreign capital has often been questioned.

Arguments in favour of foreign Capital:—

(1) *As India does not possess all the capital required to utilize fully her resources, we have to seek for foreign supply of capital.**

* "By admitting foreign capital freely India admits the most up-to-date methods and the newest ideas. All the advantages which

(2) *Apart from other considerations, foreign capital has an educative influence of the highest value. It has taught us how to start and work successfully the large-scale industries.*

(3) *Foreign capital in India has borne the losses of pioneer industrialism. The risk of a new enterprise has always been borne by foreign capital.*

When Foreign Capital is an evil.

Foreign capital by itself is not bad but *when foreign capital is saddled with foreign enterprise*, it is a positive evil.

Sir Vithaldas Damodar Thackersay said:—"When we turn to the petroleum industry of Burma, the gold mines of Mysore, the coal mines of Bengal, the tea and jute industries, the carrying trade by sea, and the financing of our vast foreign trade by foreign banks, we come upon another and a less favourable aspect of the investment of foreign capital. A country which maintains a population of thirty-one crores is not likely to let about one lakh of persons starve, and this is the number of wage-earners benefited by these industries. The price paid is much too great for the advantages accruing from them to the country."

The following prominent industries of India are being exploited by foreign capital:—Jute, Gold and other minerals, Banking and Insurance Companies, Navigation, Railway and Tramway Companies, Wool, Tea and Planting Companies and Coal and other quarrying companies.

Other arguments against Foreign Capital.

(1) *Foreign capital gradually creates a vested interest in the country and ultimately becomes antagonistic to political progress.* European traders and manufacturers who apprehend persecution under a Swarajist India can not but vehemently oppose India's political progress.

we anticipated from a policy of increased industrialization would be accentuated by the free utilization of foreign capital and foreign resources."—*Fiscal Commission Report.*

(2) *It is also alleged that foreign capitalists take no trouble to train up Indians, and do not give them a reasonable chance of rising to positions of trust and responsibility.*

The Fiscal Commission, in opposition to the views of those who advocate restrictions against foreign capital, opines that "if legislation is enacted putting obstacles in the way of the employment of foreign capital, India's credit abroad will be injured, and the British investors also will become shy."

The Report, however, agreed to impose the following restrictions where foreign capital was in enjoyment of a monopoly privilege: (1) that the Company should be registered in India with a rupee capital, (2) there should be a reasonable proportion of Indian directors, and (3) that reasonable facilities should be given for the training of Indian apprentices.

The Problem of Foreign Capital Reviewed.

Dr. Banerjea's views on the subject may be summarized as follows:—"Indians should utilise foreign capital and pay the necessary price for it. Foreign capitalists should not exploit the country because the enrichment of a country depends upon the profits of the country remaining in the country. Admission of foreign capital should be restricted and the extension of mineral resources should be prevented. Indian capital should have freer scope. Foreign owned firms must provide for the training of Indian apprentices and a proportion of seats must be reserved for Indians in the directorate of each company. *Probably £1,000 millions of foreign capital are invested in India.*"

VII. The State in relation to Industries.

Early Neglect.

From the beginning the state followed a policy of 'let alone' in the organization and development of trade. The want of fostering care on the part of the government and the competition and initiative of the foreign producers exerted such a cumulative effect as to keep away and oust the children of the soil from the industries.

Active Fostering.

As early as 1880, the Famine Commission advocated a policy of government initiative in industries but the advice was ignored. But things could not be put off for long. As early as in 1905 the Commerce and Industry Department was constituted. The *Swadeshi movement* later on received official support. Since then the government has actively fostered indigenous industries in the different provinces among which Madras took the lead. The Government loaned out large sums of money to the owners of several sugar factories and started a pioneer cotton seed factory at Cawnpur. Industrial surveys were undertaken.

Withdrawal of Help.

But the opposition of European mercantile community led to the reversal of government policy. The Despatch of the Secretary of State for India in 1910 disapproved the government activities and pointed out that it should rest satisfied with simply imparting industrial education and familiarising the people with improved processes of production. So the government factories were closed down. The Industrial Department of the Madras Government was broken up and the factory for the manufacture of aluminium wares was dismantled.

The War and a change of Policy.

But the War showed the industrial helplessness of India. The Industrial Commission was appointed in 1917 which unambiguously suggested state aid to industries in its various aspects. The recommendations were based upon the fundamental principle that "in future Government must play an active part in the industrial development of the country, with the aim of making India more self-contained in respect of men and material."

The Indian Munitions Board was created in 1917 to equip the country primarily for the supply of war materials and incidentally to develop Indian resources. It did valuable work to foster Indian industries but it was closed in 1919 after the signing of armistice.

Departments of Industries Organized.

The Reforms of 1919 made the Development of Industries a provincial subject. The Industrial Commission had recommended the formation of Imperial and Provincial Departments of Industries.

The Central Department of Industries now directs the general industrial policy of the country and deals with matters of all-India interest. The Provincial Departments give direct financial aid, and render advice and assistance when necessary.*

A "State Aid to Industries Act" has been passed in many provinces, empowering the authorities to grant loans to deserving entrepreneurs.

In 1922 the Indian Stores Department was started for the purchase of stores and to give preference to Indian manufacturers.

Discriminating Protection.

Finally, came the recommendations of the Fiscal Commission which advocated a policy of "discriminating protection" for India and proposed that when an Indian industry would seek for protection, the Government is to appoint a Tariff Board which is to enquire and report whether that

* Provincial Departments have established a Textile Institute and a Leather Institute in Madras, a Technological Institute and a Leather Institute at Cawnpore, a Metallurgical Institute in Bihar, a School of Mines at Dhanbad and an Industrial Research Laboratory in Bengal.

particular industry has sure chances of success in the near future if protection be extended to it. (For details, Read, page 159, Chap. XI).

State Measures to Foster Industries.

We may conclude that till very lately the Government has not taken any positive measure to foster and develop Indian industries.

What it has done may be summed up as follows:—

(a) *The Stores Purchase Department* attempts to bring the buying department in effective touch with the manufacturers and to increase purchases in India as much as possible. (b) The Provincial Industries Departments make a survey of the industrial possibilities of a province and also maintain a bureau of industrial research. (c) The state grants protection to industries by levying duties on foreign imports. (d) The state establishes industrial schools, *technological* institutes and *demonstration* factories with a view to establish new industries. (e) The Industries Department gives financial aids and loans to entrepreneurs handicapped by lack of finances. (f) The Department of Commercial Intelligence and Statistics publishes all sorts of information about trade and industry. The State also makes arrangements (g) for exhibitions, exhibition-trains and demonstrations, (h) for Marketing surveys, (i) for State scholarships for technical training abroad and (j) for Working of Pioneer factories, e.g., the Kerala Soap Factory is worked by the Madras Government.

The War and Indian Industries.

The present War has created a situation favourable for developing further the industries of India. The fall in imports has become as effective as protection and on the other side the Supply Department of the Govern-

ment of India is spending a large amount of money for buying war materials in India. Indian factories are now manufacturing large quantities of sand bags, hessian, steel, leather goods, army blankets, khaki cloth and 'cotton-jute union fabric.' New industries manufacturing electrical goods, drugs and chemicals, etc., are also developing. Some difficulties have however been created by the inadequacy of finance, lack of trained artisans, scarcity of imported machinery, scarcity of important materials and the general nervousness and panic in the market.

CHAPTER VIII.

LABOUR AND CAPITAL.

I. Supply of Labour.

Nature of Industrial Labour.

The labour material (industrial) in India is very promising. An Indian labourer is honest, laborious, sober and easy-going but he is generally unskilled, uninformed, unenterprising and heavily indebted. Employers have done very little to improve his physical, intellectual and moral fitness.

Scarcity of Labour.

The potential supply is large. By opening cheap communications, by elevating the depressed classes, by enlisting the service of the large class of sturdy beggars, by a better system of labour recruitment, the supply of common labour may be increased.

Efficiency of Labour.

But increase of the *efficiency** of labour is important in more than one way than a mere increase in number. The wages that are paid to inefficient labour are comparatively higher than what is paid to efficient labour. Undoubtedly the latter gets higher wages but his output of work is greater in comparison with the wages paid to the former. So efficient and highly paid labour is cheaper to the employer. In India not more than 3 per cent. are engaged in direction, supervision and clerical work.

* Efficiency implies physical capacity and stamina, regularity and punctuality in attendance, a sense of responsibility and honesty, skill and activity, carefulness and concentration, and such other qualities.

The *causes of inefficiency* have been attributed to excessive hours of labour, the insanitary surroundings in which the labourers have to work and live, the want of sympathetic care on the part of employers and the *migratory nature of labour*. "The heart of the factory hand is in the village, not in the towns." Their attachment to their native soil and the fact that their families often reside in the villages have made the labouring population of towns, "a flitting, dilettante population." Untouchability has also led to the inefficiency of labour. Bad leadership, unscientific appliances, the hot and humid climate, illiteracy and irresponsibility—all these are factors contributing to the inefficiency of the labourers. Want of prospect, and of hope, freedom and change, also stand in the way of efficiency.

Technical Education.

The training of the workman should have reference to *local needs and industries*, so it should be so arranged as to suit the needs of particular localities. The older method of apprenticeship ought not to be entirely abandoned but should be supplemented by scientific instructions imparted in evening classes. Technical schools should work in conjunction with workshops, so that training may be thoroughly practical.

The Industrial Commission suggested that railway workshops should be utilized for training apprentices. To make technical education attractive, the conditions of training should be consistent with self-respect, the amount of stipends and salaries should be raised than at present, and government should open more technical schools. *With the technical schools alongside the workshops, it becomes possible to provide an almost ideal course of training.*

Labour Legislation.

Recent years have seen some noteworthy steps taken by the Government for protecting the interests of the labourers.

The Factory Act of 1934 provides that children between 12 and 15 years of age can be employed in factories for not more than 5 hours a day. The hours of work for adults

are not to be more than 60 a week and 11 a day in seasonal factories (e.g., sugar factories), and not more than 54 a week and 10 a day in the factories working throughout the year. The Indian Mines (Amendment) Act of 1935 has limited underground work to a maximum of 9 hours a day and has provided for gradual elimination of women from underground work.

The Workmen's Compensation (Amendment) Act of 1933 is another important piece of legislation. According to its provisions, labourers or their dependents get scheduled amounts of compensation in case of disablement or death arising from occupational causes.

The Trade Disputes Act of 1929 has provided for the appointment of Courts of Inquiry or Boards of Conciliation in cases of labour strikes.

The Trade Union Act of 1926 gives some special powers and privileges to registered associations of factory labourers.

The Payment of Wages Act of 1936 regulates the periods of wage-payments and seeks to control the illegal deductions that are often made by the employers from the wages of the labourers.

Labour Welfare.

Employers have now come to realise that it is to their own interest to arrange for the living and working conditions of the labourers. The Tata Iron and Steel Company at Jamshedpur or the Empress Cotton Mills at Nagpur can be taken as instances of pioneers of labour-welfare schemes. Private bodies like the Y. M. C. A. have also done valuable work in this direction. In some provinces, arrangements have been made for granting monetary help to women labourers during and after pregnancy.

Condition of Agricultural Labour.

We have already discussed about the nature of agricultural labour in India. So far as the conditions of such labour is concerned, it is miserable. The status ranges from a semi-slavish one to free labour. The depressed castes naturally belong to the former class. This semi-slave labour which is usually inefficient is more costly to the employer. Due to their low productivity and consequent low wages such labourers are migrating to other fields like mines and factories and in some provinces, where such opportunities are greater, ordinary agricultural labour has migrated so much that there has arisen a paucity of labour.

Living on the most slender of means, paying directly the highest rate of rent and indirectly the largest amount of indirect taxes on consumption of absolute necessities of life, with less than a pice spent annually for his education, being oppressed by the Mahajan from generation to generation, without the least apology of welfare work being done by his landlord or the state, harassed by frequent drought and draught and living on the returns of a niggardly soil cultivated under diminishing returns, a fatalist by nature and training, the Indian ryot is quite unable to fight against nature. His mission in life seems to be to maintain the so-called upper classes of society, men who live indirectly on the soil, in ease and comfort from generation to generation.

II. Supply of Capital.

Supply of Agricultural Capital.

The supply of agricultural capital in India is very limited. *Fixed capital* invested on land, *e.g.*, in improvements, such as irrigation, embankments, permanent fencing, erection of farm houses, and in machineries, etc., is abnormally small. As regards *cattle*, the Indian agriculturist is also badly situated. The breed is of inferior quality. As to *reserved capital* in the shape of sinking fund and insurance fund they are non-existent. As to *circulating capital* in the

shape of grains, the cultivator is not able to stock them against bad seasons. Even sometimes he is forced to live on the *seeds*. He does not know how to prepare and utilize the fodder, or use to the best advantage the available manures. His farm implements are also primitive and inefficient.

Supply of Industrial Capital.

We have already discussed about *foreign capital*. Admittedly the supply of indigenous capital is small and shy. India being an agricultural country, she produces much wealth but before turning them into capital consumes them as wealth. That is the main reason why capital grows slowly in India.

III. Hoarded Wealth of India.

European Estimate.

It is widely believed by Europeans that India has a large store of hoarded wealth. Sir Earnest Cable, Henry Macleod and others estimated the hoarded wealth of India to be worth not less than £550 millions (Rs. 780 crores) in gold and silver. Lord Rothschild in his evidence before the Indian Currency Committee remarked that "smooth gold bars sent from London to India never come back."

Nature of Hoarding.

It is alleged that most of these precious metals are hoarded in the shape of ornaments. *It is said that the bank of an Indian ryot is on the person of his wife.* Further, it is argued that by artificially raising the value of the rupee over its metallic content by the Currency Act of 1893, hoarding of silver has been replaced by gold. Trade statistics, it is also pointed out, prove unmistakably India's hunger for gold. But this hunger is neither excessive nor unusual compared with other countries of the world.

Hoard is Insignificant.

But Sir Vithaldas points out that had it been so then famines would not have been so frequent in the country. Sir Robert Giffen's estimate of India's hoarding per head is Rs. 10 to England's £334. Prof. Kale estimates the per capita hoarding at Rs. 25 and Mr. A. C. Chatterji calculates it at Rs. 10 only.

From all evidences it is clear that the hoards are not large and the Hon'ble Mr. Clark admits that there are signs that the ancestral habit of hoarding is beginning to give way before modern influences.

Export of Gold.

Since 1931, due to the linking of the rupee to the depreciating British sterling, the price of gold in India in terms of the rupee has considerably risen. As a result of this artificial rise in value people, particularly the agricultural classes and the lower middle class, who were adversely hit by the economic depression were selling out their "hoarded gold." The value of the total export of this "distress gold" has exceeded 300 crores of rupees.

CHAPTER IX.

POVERTY AND FAMINES.

I. Poverty of the People.

The present standard of life in India, adjudged by the European standard, is admittedly low. It is below the *primary* poverty line. The position is extremely miserable. **Indians are too poor and getting poorer.**

An Indian's income is less by one-twenty-fifth of the income of an Englishman. About 28 millions of people in India, says the Imperial Gazetteer, are always in want of food. Expert medical authorities declare that the depredations of various diseases, like Malaria, Cholera, Plague etc., are mainly the results of ill-nourishment. Sir Robert Giffen observed in 1903 "that forty-two millions of people in the United Kingdom consume in food and drink alone an amount equal to the whole income of 300 millions of people in India." While an Indian has an average income of £3, an Englishman has an income of £60. The average wealth per head is Rs. 10 and £334 respectively in the two countries. The Indian volume of trade per head is only Rs. 15 to England's Rs. 385.

Per Capita income in India.

Mr. Dadabhoi Naoroji calculated in 1870 the income per head of the Indians at Rs. 20 per annum, Mr Atkinson at Rs. 25 in 1875 and at Rs. 34 in 1895. Lord Curzon estimated it in 1901 at Rs 30. Profs. Wadia and Joshi estimated it at Rs. 44 in 1913-14. In 1921-22, Profs. Shah and Khambata estimated it at Rs. 67 while for the same

period Mr. Findlay Shirras' estimate reached Rs. 107. Mr. Findlay Shirras's estimate rose to Rs. 126 in 1924 and came down to Rs. 58 only in 1932.

A valuable estimate made by Mr. V. K. R. V. Rao reveals that the average annual income of Indians during 1925-29 was only Rs. 78.

In startling contrast to India, an American has an income of Rs. 1200 per head per year, an Englishman Rs. 1,000 per year, while a Canadian and an Australian has each Rs. 1320 per year.

Standard of Life and Living.

The standard of consumption is determined by the standard of life. It varies not only between individuals but from class to class. It differs, again, not only in degree but in kind. Moreover, the most expensive standard is not necessarily the best. To determine whether a particular standard is high or low, we have to enquire whether it conduces to the moral and material welfare of those who have adopted it and to society in general. "It is often said that the customs, the social institutions, and the religious and moral ideas of the people of India favour a standard of living which is comparatively low. This is true in a sense; but it is not a thing to be regretted."

Indian statistics of consumption show that a large proportion of the people are poor and can hardly get one full meal a day. Again, though clothing is of less importance, excepting the richer class, the majority go under-clothed, and the bulk of the people live in mud huts. "Ill-fed, ill-clad, ill-lodged, the mass of the people of India lead a dull and dreary existence from year's end to year's end. Thus the physical deterioration of the people tends progressively to increase; and with the progress of physical degeneration, their moral stamina also tends to become less and less strong. Consequently, the efficiency of labour as a factor in production has an increasingly rapid tendency to diminish."*

Increased consumption leads to efficiency but it should be wholesome in its nature. Satisfaction of physical needs alone does not

* Dr. Banerjea.

conduce to efficiency but supply of the necessities of a higher kind in the shape of *more leisure* and *more recreation*, and *better education* and *better sanitation* may contribute most. "A people may be dulled because of too little, enervated because of too much, degraded because of ill-chosen amusement."

Causes of Poverty of the People.

We have already seen how poor we are. It is still more queer that we are a poor people in an economically rich country. The causes of poverty are many. We may enumerate some of them as follows:—

(1) Indian philosophy of life enjoins limitations of wants; (2) this has bred inertia and fatalism; (3) mendicancy is believed to be sanctioned by religion, so both the alms-giver and the alms-taker consider themselves to be thrice-blessed, a psychology which puts a great premium on indolence, deceit and credulity; (4) extravagant social habits and religious prejudices; (5) social habits and institutions, e.g., early and universal marriage, the caste system, the joint family and the laws of inheritance which lead to fragmentation of land; (6) climatic conditions, such as extremes of temperature, which enervate energy and industry; (7) preventible diseases, e.g., malaria, cholera, small-pox, etc., which lead to the undermining of health and strength and loss of working hours; (8) the dependence upon agriculture, the success of which depends upon fitful monsoons; (9) agricultural indebtedness, the usurious rate of interest prevailing in the villages, the unusual love of litigation among the tenantry, the oppression of Zemindars, extreme ignorance of the ryots, etc.; (10) industrial backwardness of the people as the result of an indifferent policy pursued by the government; (11) the *economic drain* in the shape of Home charges and on other items; (12) and lastly, the adoption of the policy of putting the Empire before India by our rulers.

II. Famines in India.

We have already noticed two economic features of India, *viz.*, India is an agricultural country and is dependent for her prosperity upon nature, and secondly she is extremely poor. These two factors are mainly responsible for visitations of famines and scarcity on every complete or partial failure of rainfall.

The Puranic tales record the occurrences of famines and term it as *Manwanter*, implying that they were few and far between.

Famines of Money and Not of Food.

Formerly, famines occurred in India as the result of prolonged war and its consequent devastations, or on failure or excess of rainfall. *It was then territorial and limited to particular areas where harvests failed.* As communications and transport were primitive, it often happened that when men in the neighbouring districts died in thousands for scarcity of food, a few scores of miles away plenty prevailed and bumper harvests made food prices extremely low.* The introduction of railways and the construction of roadways changed the character of Indian famines. To-day *famines in India are no longer famines of food but famines of money.* Millions die of starvation for their inability to purchase food, while all the time export of foodstuffs continues.

History of Indian Famines.

There were only four famines of any importance during the Mahomedan rule in India extending over a period of 500 years. But under the British rule, between the years

* Before the construction of railways, in 1823 the price of grain at Poona ruled as high as 64 to 70 shillings a quarter, whilst at Khandesh it was only from 6 to 8 shillings a quarter. Owing to the incidence of the rainy season and the want of roads, grain could not be taken from Khandesh to Poona.

1770 and 1900, a period of 130 years '*we have a sad record of twenty-two famines.*'

Definition of Famines.

Famines may be defined as sudden unemployments on a large scale. In Europe and America, the governments have undertaken the responsibility of relieving the unemployed at all times. In India the responsibility is admitted only when the ordinary ways of earning one's livelihood becomes an impossibility, and people die actually of starvation.

Causes of Indian Famines.

They may be classified under three heads, economic, physical and administrative.

(a) ECONOMIC CAUSES.—*Famines in India are not famines of food but famines of money.* Even in years of great famines the food supply is not found insufficient and export trade continues. People die in thousands as they have not got the money to purchase their food. Had the people not been so poor* then perhaps they would have been able to store for a bad season which may on an average occur 'twice to every seven good.'

(b) PHYSICAL CAUSES.—An agricultural country has to depend more or less on rainfall which is very *fitful*. Moreover, the rainfall is not evenly distributed. It must not only be *sufficient* but *timely*. Some tracts get no more than 2 to 5 inches of rainfall in a year. In other tracts there is complete failure of rainfall every seven or eight years, *e.g.*, in the Deccan.

* The poverty of the people may be attributed to over-population, pressure of population on land due to the decay of handicrafts, improvident habits of the people, fatalism bred by dependence upon nature, indifference of the government, heavy land tax, excessive, insufficient or unevenly distributed rainfall and paucity of agricultural education among the cultivating masses.

(c) ADMINISTRATIVE CAUSES.—Excessive land revenue assessment is attributed to be the cause of destroying the resisting power of the ryots against bad years. The huge expenditure for military and civil administration makes it impossible for the Government to do anything substantial for the improvement of the economic conditions of the people.

Remedies of Famines.

The following are some of the remedies proposed for the prevention and mitigation of famines:—

(a) *Construction of railways and of canals for irrigation purposes.*—Canals produce, railways distribute. Distribution is not of less importance than production. During the great Orissa famine when railways were not opened ship-loads of food-stuffs which were sent to the Orissa sea-coast had to be sent back as they could not be landed due to the rough seas.

To provide for protective railways and irrigation, the Government of India used to provide an earmarked grant, known as *Famine Insurance Grant*, amounting to Rs. 1½ crores. Famines have been made a provincial subject by the Act of 1919.

(b) *Prevention of the demolition of forests.*—Forests help rainfall as well as store rainfall and so indirectly fosters agriculture. So they are to be protected.

(c) *Emigration.*—Emigration of the surplus population removes the pressure upon land.

(d) *Industrial development.*—It creates more employment and it is less fitful than agriculture. Some propose that *diversification* of industries instead of a dependence on a single industry like agriculture is necessary for every country.

(e) *Fixity of tenure and fixity of rent* also contribute to agricultural stability. Brij Narain advocates a policy of greater industrialization and a *complete diversion of surplus*

agricultural labour (particularly, landless) to industries, the *nationalisation of land* and more *active participation of the government in agriculture* as potent measures to solve Indian agrarian problems.

Prof. Kale says that "more capital, more industry, more work and greater efficiency and productivity are the essential conditions of success in the fight against famine." In short, on the solution of poverty rests the mitigation of famines.

Government Measures against Famines.

They may be divided as (1) *remedial*, and (2) *relief measures*.

(1) Remedial measures.

Remedial or preventive measures are those which are adopted beforehand to protect the country against the visitation of famines, while *relief measures* are those which are adopted when famines have already broken out.

Remedial measures include provisions for protective irrigation works and railways, forest protection, emigration, industrial development and agrarian reforms. To these may be added, a keener interest of the Government in improving agriculture and fostering manufacture, and the rapid spread of co-operative movement to supply cheap capital to the heavily indebted agriculturists.

(2) Relief Measures.

In the early 70's (1868) the obligation of the government in times of famines was declared to be *the saving of human life* irrespective of the question of expenditure. Ten years later the policy was modified so as to imply that in the interest of tax-payers the relief policy should be such as to warn against indolence and imposition.

Famine Campaign.

Famine relief, however, necessitates a permanent and most efficient arrangement.

Accordingly *standing preparations* have been kept in every province according to its own special Famine Code.

DANGER SIGNAL.—Danger is apprehended when crops fail, prices rise, credit shrinks and unemployment begins. Charity contracts, petty thefts begin and speculative purchase of food grains take place.

FIRST STAGE.—If private charity cannot cope with the situation and cases of death from starvation are reported, *village inspection* begins. If the number of persons requiring urgent relief increases, *poor-houses* are opened.

SECOND STAGE.—Later, *test works* are opened and strict care is taken to accurately measure the distress of the people.

Finally, with increase in the number of deaths, *relief* work is opened and also *gratuitous* relief is given to the dependants of the workers. From December to March the number increases and a respite is given in April when *mohua* and the *mangoes* ripen. In May, the problem is often aggravated by the break-up of cholera.

With the rains, the workers are transferred from large relief works to small public works nearer their homes.

LAST STAGE.—Lastly, comes the closure of the relief. On the one hand, this should not be done too suddenly nor on the other hand it should be continued after the necessity for it has ceased, because thereby the return of the community to the honorary pursuit of life may be retarded.

There is a great elasticity in the present relief system. Habitual beggars find shelter in poor-houses, children are

protected from the rapacity of their parents, weak persons are specially treated, and deserted children are returned to their relatives or co-religionists.

The relief fund is often supplemented by private relief fund,* and private bodies and association sometimes render valuable service.

* The objects on which private relief funds are expended are:—
(1) For providing small comforts of food or clothing to aged, infirm, sick and children; (2) for helping orphans; (3) relieving the respectable poor in ways acceptable to them; and giving a fresh start in life to those who have lost everything in the struggle.

CHAPTER X.

DISTRIBUTION.

I. Rent.

Rent and Custom.

We have already discussed how rent is determined in India by three factors, custom, competition and legislation, and how custom is still to a large extent the foundation of Indian rents.

Rent and State Landlordism.

In 1793 the privilege of permanent settlement was conferred on *one-third* of India and the rest was placed under temporary settlement. With the rapid extension of cultivation, however, the area under permanent settlement has dwindled into one-fifth of the whole of cultivated area. Thus at present state landlordism extends to four-fifths of India.

In permanently settled tracts the Zeminders were originally allowed to retain only 10 per cent. of the collection and remit the remaining 90 per cent. to the state. But the Zemindars to-day are enjoying 75 per cent. of the total rental and the Government only 25 per cent., partly due to rise in prices but mainly due to the fact that at the time of the permanent settlement the Zeminders were assessed for much less lands than what they actually occupied. In one particular instance a lease granted for 100 bighas only were found on a later measurement to consist of 14,000 bighas.

In temporary settled tracts, by the Shaharanpur Rules of 1855, the Government has reduced its demand from 90 per cent. to 50 per cent. of the net income from the lands.

Rent and Population.

MILL wrote that in a purely agricultural country when population increases fast, "the competition for land makes the tenants

undertake to pay more than it is possible they should pay and when they have paid all they can more must always remain due."

At the beginning of the nineteenth century when there was scarcity of tenants and moreover, due to the disturbed condition of the country, their physical help was in requisition by the landlords, custom ruled rent. But during present times population has increased and there is a scrambling for land. As a result the landlord has risen to a position from which he would have been able to exploit the raiyats had he not been checked by legislation.

II. Land Revenue.

Share of the State.

For the up-keep of the state, the people must contribute something, and in an agricultural country like India land revenue necessarily is the mainstay of the State finances.

In the "*Laws of Manu*" we find the King's share of the land revenue to have been fixed at one-sixth or one-eighth or one-twelfth of the gross produce. But the growing requirements of the state gradually led to an increase of this share. The Moguls fixed *one-third* as a fair rate. Before Akbar's time the revenue used to be paid in kind. He fixed a monetary standard with the option to pay the land revenue either in kind or coins. Todar Mal under Akbar elaborated and systematized the land revenue administration.

But on the decay of the Mogul Empire the whole system became disorganized. The bad system of farming out the privilege of collecting land revenues became customary. The farmers of revenue were the people who could be readily looked to for money by improvident rulers and so the actual amount paid by the former depended very largely on the bargain they were able to strike with their masters. These farmers were known in Bengal as Zeminders, and in Oudh and Guzerat as Talukdars. Under the circumstances, it naturally followed that the farmers rackrented the tenants and set at naught the whole Mogul revenue system.

* The term *rent* is used to denote what the tenant pays to his overlord, and the term *revenue* to denote what the government receives from the land-holder. In a purely raiyatwari settlement, rent and revenue coincide.

To whom ownership belongs?

With the advent of the English the question arose as to whom the ownership of land belongs and on what principle land revenue is to be assessed.

There were three schools of opinion holding divergent views:—

(1) According to *economic doctrine* all lands belonged to the state and the whole of the economic rent should go to the exchequer. But Baden Powell, the great authority on Indian land revenue, held that 'the British Government had *everywhere* conferred or recognized a private property in land, and so could not demand the whole of the economic rent'.

(2) The *English doctrine*, which recognizes the absolute proprietary right of the landlords to the soil in England, was proposed to be introduced in India and thereby to create a body of landlords analogous to the landlord class in England with their *land tax fixed in perpetuity*. This policy culminated in the Permanent Settlement of Bengal. But as it was pointed out later on that the doctrine did not admit the already recognized rights of sub-proprietors, a further extension of the doctrine was abandoned.

(3) Lastly, came the *Indian doctrine* which is a compromise between the English doctrine of regarding land as the absolute property of the landlord and the economic doctrine of looking upon all land as the property of the State. It is interesting to note that when these discussions were going on nobody cared to enquire whether the actual cultivators were the proprietors of land. In the Mughal days the Khood Kasht raiyat actually enjoyed all the privileges of ownership.

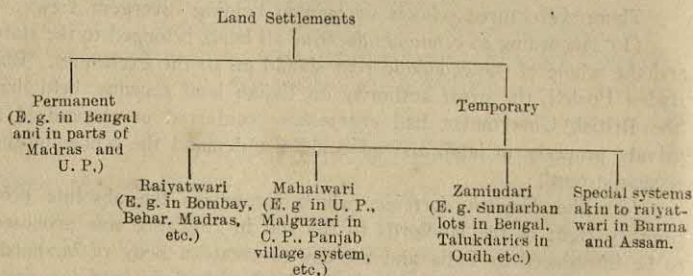
In India the right to private property in land is recognised but subject to two limitations, the *first* of which consists in sharing with the Government all increments (unearned) in the income derived from land and the *second* consists in the recognition of the semi-proprietary right of the tenant and to his fixity of tenure. This principle was followed in assessing the subsequent *temporary settled tracts*.

Classification of Land Revenue Settlements.

BARDEN POWELL states that "what is technically called a *settlement of the land revenue*" consists in the determination of the share of the produce or rental to which the

state is entitled and the preparation of record of all private rights and interests in the land.

The present varieties of land revenue settlements may be classified as follows:—



Permanently settled tracts are those where the revenue has been perpetually fixed or settled with a proprietor, usually known as Zeminder. It extends over Bengal, the Benares districts in the United Provinces and the northern districts of the Madras Presidency, and represents in all about *one-fifth* of British India.

Temporary settlement prevails in the rest of India and the revenue is determined for a period of years, the term being 30 years in cases of Bombay, Madras and the United Provinces, and 20 years in cases of the Punjab and Central Provinces. Still shorter terms have been fixed on "the development principle" for less developed provinces, so that the enhancement of revenue may be gradual and not suddenly oppressive. On the expiry of these terms fresh settlements are made and revenue is enhanced on the fulfilment of certain conditions, the most important being a rise in the price of agricultural produce.

When the revenue is assessed by the state, permanently or temporarily, on an individual (Zeminder), or on a com-

munity, or village, or mahal (*Mahalkwari*) owning an estate and occupying a position identical with, or analogous to that of a landlord, the assessment is known as *Zemindari*.

Where the revenue is imposed on individuals who are or who represent the actual occupants of holdings, the assessment is known as *Raiyatwari*. Under both the above systems there may be layers or successive grades of rent-paying sub-tenants.

Temporary Settlement.

In most provinces it has been laid down that not more than half the money value of the net produce or not more than half the net assets is to be taken in the process of assessment. General revisions of assessment should take place according to the stage of development of different tracts, at shorter intervals in new tracts and at longer intervals in older provinces.

III. Permanent Settlement.

Permanent Settlement: Before and after.

PROF. S. C. ROY says that before the Permanent Settlement (1793) the raiyats enjoyed 'permanency of tenure and fixity of rent,' while the Zeminders had no property in the soil and whatever rights they possessed were derived either from *sanads* granted by the sovereign or from custom and they merely held lands *during the pleasure* of the Crown. The rights, however, gradually crystallized themselves into hereditary rights and carried with them *great responsibility and considerable influence and power*. The permanent settlement fully confirmed these hereditary rights by declaring the Zeminders as the actual proprietors of the soil.

The immediate reason that led to Permanent Settlement.

The immediate reason for introducing the Permanent Settlement was the exigencies of the finances. Before 1793 the East India

Company used to realize its revenue by the system of farming out zeminderies to the highest bidder. The zeminderies which traced their origin from the ancient Hindu Rajahs, *e.g.*, the Rajas of Cooch Behar and Tipperah, and also the zeminderies created under the Mahomedan rulers, *e.g.*, the Rajhas of Nadia, Burdwan, Dinajpur and others, were, however, outside the system of farming. The system proved harmful and ineffective. The farmers could not pay regularly the revenue inspite of every possible kind of oppression upon their tenants. The great Bengal famine of 1770 worsened matters. Zeminderies and the old aristocracy began to disappear under the rigours of the sunset law. The Court of Directors became impatient of waiting for further 'experience and experiments.' Lord Cornwallis and Sir John Shore (afterwards Lord Teignmouth) who were deputed to readjust the finances introduced in 1782 a Zemindari Settlement for *ten years* (*Dos-shala Bundobust*), which, in 1793, in the teeth of strong opposition, Lord Cornwallis declared to be *permanent*.

At the beginning of the nineteenth century the measure was supposed to produce the best results. But the present official view is very strong against the measure.

Motives to Permanent Settlement.

The motives that prompted Lord Cornwallis to enter into Permanent Settlement with Zeminders may be classified under four categories, *economic, social, political* and *financial*.

(1) *The Economic Motive*.—Lord Cornwallis expected that permanent settlement would bring *prosperity and plenty to the people*. On the one side it has been argued that the limitation of the state demand has fostered agricultural enterprise, extended cultivation, and led to the accumulation of some capital in the hands of private proprietors. *Further, permanent settlement has saved Bengal from the worst horrors of famines*. The critics of Permanent Settlement, however, pointed out that the agricultural prosperity has been due to two main factors, namely, increase of population leading to an increased demand for food-crops, and the rise in the prices of agricultural crops.

Lord Curzon's Government in the memorable Resolution of 1902 affirmed that the absence of famines in Bengal was due to the Rent Act of 1859 (known as the Charter of the Bengal raiyats) and not to the permanent settlement of 1793. The late Mr. R. C. Dutt tried to prove the opposite view by quoting an inexhaustible list of authoritative opinion upon the subject.

(2) *The Social Motive*.—Lord Cornwallis wanted to save the Bengal aristocracy from extermination through the operation of the Sunset Law.

The Zeminders as was expected have spent money "in fostering trades and industries, in supporting schools, dispensaries and charitable institutions, in excavating tanks and wells, and lastly in supporting the poorer classes in seasons of distress and famine." But their outlook has totally changed since the last century.

(3) *The Political Motive*.—The policy of Lord Cornwallis was to *confirm the loyalty of the* 'most substantial classes of the people, and through them of the entire people, towards the ruling power.' The Sepoys, during the days of the Mutiny, are said to have lost heart for the want of sympathy and the silent loyalty of the Zeminders.

(4) *The Financial Motive*.—The then existing system was so precarious that it became necessary to take some bold step for ensuring a *definite amount of revenue*. So Lord Cornwallis created the permanent settlement.

Advantages of Permanent Settlement.

In addition to the above four advantages, economic, social, political and financial, the other advantages pointed out are:—

- (a) At the time it was effected, it freed the hands of the officials of the Company for other spheres of administration,
- (b) It assured a fixed revenue.
- (c) It has produced in Bengal an influential class of landlords, a strong and

intelligent *middle class*, and a resourceful peasantry. (d) It has fostered the growth of personal relations between tenant and landlord which is unthinkable in the case of mechanically managed *khasmahals*. The growing tendency towards 'absentee-landlordism' has however taken away much of the significance of these personal relations.

The system is much better than the temporary settlement in as much as:—(a) It avoids periodical expenses and harassment incidental to ryotwari or temporary settlement; (b) it does not engender the vagaries which are resorted to in order to evade the consequences of every revision of settlement; (c) it helps the growth of wealth and contentment; (d) it leads to the rise in land value by the operation of the magic of property which professes to turn sand into gold; (e) and it is free from many of the defects inherent in the principles of temporary settlement.

Criticism of Permanent Settlement.

The opponents advance the following arguments against permanent settlement:—

(a) *The hope of introducing large-scale production in agriculture by large landholders* has been belied. But it is to be remembered that large-scale production in agriculture has seldom proved economic or remunerative. Moreover, the Zeminders were not given *khass* possession of lands and a large-scale system of production would have engendered dispossession of lands of the tenants by the Zeminders.

(b) *The government is losing revenue heavily due to the system.* It is argued that in 1793 the total rent-roll was 400 lakhs of rupees and the Zeminders were charged nine-tenths of it, i.e., Rs. 360 lakhs as Government's share of the revenue. To-day the Zeminders are collecting from

the tenants Rs. 1,600 lakhs but the government's share has increased only to Rs. 400 lakhs leaving a balance of Rs. 1,200 lakhs of unearned increment which the Zeminders are enjoying along with tenure-holders.

The advocates argue that the system has increased the resisting power of the people of the province and has made famine relief expenditure, protective irrigation and railway outlays unnecessary which up till now have involved very heavy expenditure in temporarily settled tracts. It is also argued that "*the government don't exist to get the largest revenue it can out of the country.*"

(c) *The Zeminders are benefited with every rise in the price level.* It is contended that the Zeminders can enhance every fifteen years the rent of occupancy tenants if there is a rise in the price level.

But the law can be changed for the benefit of the tenants. It is, however, impossible to take action on that line as the government in the temporary settled tracts is reaping great benefits as the result of the existing law.

(d) *The Government is more considerate to their tenants than the Zeminders.* It may be so. But the *tahasildars of Khasmahals may not be so.*

(e) Permanent settlement did not *recognise the rights of the Ryots.*

(f) It is pointed out that the settlement has led to the *industrial backwardness* of the province.

(g) The government have neither been able to *secure blind support from the Zeminders* nor could make the latter *sympathetic to their tenants.* Absenteeism is the natural order with the Zeminders.

Permanent Settlement has benefited none.

The opponents of Permanent Settlement point out that it was hastily conceived and equally hastily introduced. Immediately after its introduction it became unpopular. The *Zeminders suffered* on account of a heavy demand and for the

rigour of the system of collection and the result was that many of them created permanent sub-infeudation (e.g., *patni taluq*). Thus the much-talked of personal relations between the zeminders and raiyats disappeared. (J. C. Sinha, *Economic Annals of Bengal*, pp. 269-274).

The raiyats were equally hard hit. By Regulation VII (the *Haftam*) of 1799 the Zeminders were empowered to 'distrain' or confiscate the peasant's property without any judicial procedure. The power was greatly abused. The very fact that the Rent Act of 1859 and the Tenancy Act of 1885 had to be passed went to prove the weaknesses of the Permanent Settlement.

The agriculture of the province was actually improved by increases in the population and rise of prices, and throughout the second half of the last century the famine relief expenditure of the Government of Bengal increased. Cornwallis expected that the permanent settlement would give security and contentment to the cultivator-proprietors. But it was precisely this class that the Permanent Settlement destroyed and it was the Tenancy Act that restored the rights of the so-called occupancy-tenants.

Should the System be reversed?

Those who are in favour of P. S. argue as follows:—

(1) The reversal of the system would lead to the removal of *political support* of the landed aristocracy. And even to-day the Government cannot afford to do it. (2) It would also entail periodical enhancement of the rental of the tenants and the landlords would invariably shift every burden upon them. The Government can ill-afford to make such an experiment. (3) The reversal would necessitate compensation of the injured parties. But that would engender considerable financial outlay. Further, (4) the breaking of a pledge would undermine Government's prestige.

One Redeeming Feature.

J. S. MILL very rightly observes:—"In this ill-judged measure there was one redeeming point. The raiyats were reduced to the ranks of tenants of the Zeminder, but *tenants with fixity of rent.*"

On the opposite side, it is argued by some that "the Zemindari system is at the root of the poverty of the Bengal peasant." Much may be said on both sides. It is true that the Settlement did not actually recognise the rights of the tenants but merely issued a moral injunction on the Zeminders to recognize the rights of the tenants which the former seldom did. It was the Rent Act of 1859 and the Bengal Tenancy Act of 1885 that gave the charter of relief to the Bengal agriculturists. Further, it is pointed out that it is the *natural fertility of the soils* of Bengal that has helped to better their economic condition. But this is taking an extreme view of the case. There is no doubt that the permanent settlement has improved the condition of the peasantry so much so that famines have almost become unknown in Bengal. The peasantry is more resourceful than in any part of India. The social and intellectual benefits of the movement cannot also be denied. The better economic condition and a higher intellectual attainment has also made the problem of untouchability comparatively unknown in Bengal, and has made mobility of labour to the higher grades extremely common.

Extension of Permanent Settlement abandoned.

The Regulation of 1793 gave a pledge of permanent settlement to almost the whole of Northern India then under British occupation. But except in the case of Benares it was never redeemed. In 1821 the Court of Directors declared themselves against the proposal. The severe famine of 1860 led to the reopening of the question and the local governments, excepting the Punjab, were unanimous in their support

for introduction of permanent settlement to the rest of India. Though the Secretary of State for India supported the proposal, he took no active steps. His successor, Sir Stafford Northcote, imposed two conditions on the proposal for extension of the system, *viz.*, (1) *that no area, 80 per cent. of which has not been brought under cultivation, is to be permanently settled*, and (2) *also no area the productivity of which is expected to increase by 20 per cent. by subsequent extension of irrigation*. The proposal was finally abandoned in 1883.

Future of Permanent Settlement: Floud Commission.

The system has become more unpopular with the extension of autonomy in the provinces. Though the Congress do not think that the time is ripe for abolition of the system, its leftist section including the socialists and the *Kisan* organisers are definitely against it. Land legislations have been undertaken by all the Congress provinces, specially by Bihar, Orissa, U. P. and Assam where permanent settlement prevails.

The Floud Commission, appointed by the Government of Bengal to enquire into the problems raised by the Permanent Settlement published its report last year. The Commission has recommended state purchase of the Zemindari rights in Bengal, by paying to the holders of these rights 10, 12 or 15 times their annual income from land. While in principle no objection can be raised against state acquirement of Zemindari rights, it has to be admitted that the practical difficulties involved in replacing a long-standing system by one entirely new to the people would be almost insuperable. The Government of Bengal would have to take a huge loan, the burden of which may be very heavy at least in the initial stages. It is worth while considering whether there are simpler remedies for the evils caused by the Permanent Settlement.

IV. Temporary Settlement.

Limitation of the State's Demand.

The abandonment of the idea of permanent settlement and the adoption of the system of temporary settlement drew public attention to the system of assessment in temporarily settled tracts. The Land Resolution of 1902 issued by Lord Curzon's government in reply to the memorial submitted by late Mr. R. C. Dutta and certain

other retired officials, mostly revenue officers of the Indian Civil Service, advocating the extension of the *principles of permanent settlement* to the rest of India, clearly places on record the government view on the subject.

The Saharanpur Rule of 1855 laid down that *about one-half* and not two-thirds as heretofore, of the *well-ascertained net assets or produce value* should be the government demand. The Resolution of 1902 stated that the policy of the government was to approximate the above 50 per cent. rule and pointed out that instances were not rare where the percentage had gone down below that limit while the total average throughout India stood only at about 45 per cent.

Though there is no uniform principle of assessment in India, the Saharanpur Rule has generally been followed. The state generally claims an increase of rent when the price level rises and there is general economic prosperity.

'*Net produce*' is the term commonly used in raiyatwari areas while in the Zemindari areas the term 'net assets' is generally used.

Net assets or produce is ascertained by deducting from the gross produce the cost of cultivation. This is called *economic rent*.

The period of assessment is 30 years in Madras, Bombay and the United Provinces, while in the Punjab and Central Provinces the period extends to 20 years. In backward tracts the period is shorter as assessment after long intervals would entail heavy enhancement and consequent hardship all on a sudden.

To regulate *suspension and remission* of revenue payments due to drought and famine, the Government of India issued a resolution in 1905. It laid down that relief is not to be ordinarily given when there is half a normal crop. Total relief is to be given when the crop is one-fourth of the normal. No landlord is to be given any amount of relief unless he can ensure proportionate relief to his tenants. Realization of suspended revenue is to take place after one fair harvest has been cropped. Local governments were allowed to exercise discretionary latitude within the above limits.

Is Land Revenue a Tax or a Rent?

Under the Hindu and Mahomedan rulers private ownership of land was recognized. Also the British Government in India has everywhere conferred or recognized a private property in land. So the Government of India has never

demanded nor can ever demand the whole of the economic rent (*i.e.*, the whole of the produce from land minus the cost of production). When it does not charge the economic rent but exacts an arbitrary payment, the payment partakes of *the nature of a tax* which may be defined as an arbitrary exaction by the State without any reference to the proportion of benefit derived by the person making such payments.

At the same time, we cannot deny the fact that in assessing the temporarily settled tracts the Government follows the Saharanpur Rules of 1855 according to which it charges half the economic rent, the other half it benevolently foregoes in favour of the tenant in order to give him pecuniary relief. Under such circumstances, the revenue partakes of the nature of rent.

Economists have agreed to declare that *it is merely parrying of words to discuss whether the land revenue is a tax or a rent*. The system is a partial relinquishment of the economic rent and it is quite anomalous to declare it to be either a tax or a rent. *It can neither properly be said to be a tax for its heavy incidence, nor a rent for its partial abandonment.*

II. Wages.

Agricultural and Industrial Wages.

In page 33 we have shown how competition is more powerful to-day in determining wages than custom. But the general rate of wages is still very low particularly among agricultural labourers who are generally unskilled. In the pre-war period there was a tendency for a heavy rise in wages (about 50 per cent.) among agricultural labourers in Bengal and the Punjab.

Industrial labour may be classified as skilled and unskilled. Skilled labour as well as labour requiring high technical skill are usually foreign. Undoubtedly, there is a persistent tendency of a rise in wages of industrial labour during the last half century.

Rise in Wages.

During the period of last War and the year immediately following it there was heavy rise in prices. This led ultimately to a rise in the rate of wages. But the rise was not proportionate. Thus though the nominal wages rose, the real wages seemed to have rather fallen. Opposite forces, again, came at work after 1925. Prices began to fall but the wage-earners for a time clung fast to the high rate of wages even at the cost of strikes and lock-outs. Wages are rising due to the present war.

Peculiarities of the Indian Wage Problem.

SIR THEODORE MORRISON opined that "the great bulk of the labouring class of India are men who work on their own account and not for an employer. *Thus the rate of wages which appears to be a paramount question to the vast majority of the people of civilized countries is a matter of very slight concern to the working class of India.*"

'Imperial Gazetteer' thus states:—*High prices do not always involve high wages.* When prices are high due to scarcity, competition among labourers to secure work lowers the rate of wages. When, however, prices rise due to greater demand, wages rise.

When payments are made in kind, the labourers' real wages are not affected by a rise in price.

Where prejudices prevail with regard to supply of labour, *e.g.*, in the tea gardens, collieries, etc., the rate is high.

Average Rate of Wages.

The term "an average rate of wages" (in the different occupations) for India can have no meaning. They not only vary in the different provinces but also in different parts of the same province according to density of population and the predominance of agriculture or manufacture. Again, it would be extremely confusing if we combine under one head different occupations and then attempt to find out a single average for all. Moreover, regularity of employment varies between trades and there are few employments in which it is continuous throughout the year.

III. Interest.

Agricultural Capital and Interest.

Loanable capital may first be classified as agricultural capital and industrial capital.

The demand for agricultural capital being heavy, seasonal, and sudden, the rate is very high during the sowing and harvesting seasons. But during the rest of the year it is low. So there is not a permanently high rate encouraging greater accumulation of capital. Moreover, in an agricultural country much wealth is produced but very little of it is turned into capital.

The high rate of interest (gross) is also due to such causes as greater risk and greater difficulty of realizing the debt (*i.e.*, earnings of management). We have discussed in page 60 the services of the money-lender.

The report of the High Prices Enquiry states that "*the rate of interest on agricultural loans seems to be declining.*" Co-operative credit societies are believed to have contributed much to the result. *But the rate is still very high and oppressive.* The Government in its endeavour to ameliorate the condition of the people passed the "*Usurious Loans Act* in 1918 giving the courts authority to go behind a contract, to reopen the transaction, and to reduce the interest to an equitable amount." But the Act became a dead letter except so far as it gave limited discretionary powers to the courts. In actual practice it was found difficult "*to go behind a contract.*" The money-lenders Act of 1933 has, however, set down maximum rates of interest for different classes of loans (*see ante* p. 66). There are practically no banks to give extensive agricultural credit in India.

AGRICULTURAL CAPITAL AND INTEREST.

Indigenous capital is just shaking off its shyness. But it is too inadequate. India has borrowed foreign capital to the extent of £1,000 millions. We have discussed in pp. 113-14 about foreign capital.

Bank rate influences the rate for industrial capital. The Imperial Bank and the Joint-Stock Banks supply the capital. The Exchange Banks finance foreign trade. During the winter when agricultural crops come to the market, the rate rises. It falls in summer when the demand falls. The Reserve Bank rate is now 3 per cent. Money is lent by banks on the security of gilt-edged securities like Government Paper, shares of the Imperial Bank, etc.

IV. Profits.

In manufacture the outturn is rapid and though the rate of profit per turnover is low, the total profit is large. Agriculture, on the

other hand, is precarious, the outturn is limited, the supply is seasonal, and the profit per turnover is higher but the total is small.

In ordinary cultivation the profit varies between Rs. 10 and 15 per acre, while it is higher in the case of commercial crops, like cotton, etc., and also in garden farming. On the other hand, in some of the organized bigger industries, *e.g.*, jute, tea, etc., the profit is very high while in cotton, silk, woollen, etc., it is moderate and in glass, paper, etc., it is the lowest.

Indian entrepreneurs are still few in number and that is a conclusive proof of the fact that the share of the national dividend which goes by the name of profit is scanty.

Profits of Middlemen.

The middlemen in India finance agricultural production by the system of advances known as *dadans* when crops are still maturing. The system, however, is injurious to the producers in as much as the middlemen accept their payments in kind. The major portion of the profits from agriculture thus goes to the middlemen.

Formerly, at one end there was the village *hat* frequented by actual producers, shopkeepers, hawkers and itinerant sellers, at the other end was the big town, particularly the places of pilgrimages where people used to congregate on religious occasions. Now-a-days, in every village there are *farias* or middlemen who purchase the saleable or surplus stock, carry it to the towns to sell it to the agents of exporters. These people also help the distribution of imported merchandise. Thus we find that internal trade consists partly of a *flow of goods to the ports and partly of distribution of goods* to the different parts of the country.

Almost every Province of India has its own trading castes. The Marwaris are found everywhere. In Bombay the Parsis trade close upon the great English houses. The Guzeratti, the Bhatia, the Bohras, Khojas, Chettis, etc., occupy different areas of Western and Southern India. The traders of the Punjab are largely Khettrys and Banias. The two latter also take the lead in Bihar and the U. P.

CHAPTER XI.

INTERNATIONAL TRADE.

History of Indian Trade.

Early Foreign Trade.

Even in Manu's code we find mention of men "acquainted with sea voyages." Traffic by sea perhaps began about the beginning of the 7th century B.C. India's exports were 'splendid but trifling' and consisted of spices, precious stones, muslins, etc., and the imports comprised precious metals.

Trade by land was carried on from time immemorial by caravans with Central Asia, China, Persia and Europe. The Syrian route was only temporarily closed during the Crusades but trade by land was maintained without any break.

After the 10th Century A.D. maritime commerce was abandoned. Later, the discovery of the Cape route by Vasco de Gama in 1498, which was safer and cheaper, gave a fillip to India's trade with Europe. This revival of maritime commerce, however, was brought about by the Europeans. In the seventeenth and eighteenth Centuries we find the Portuguese, the Dutch, the French and the English competing with one another on the Indian waters, the latter having ultimately ousted the others. The invention of steamships and the opening of the Suez Canal are the next important factors that brought about the phenomenal increase in the volume of foreign trade.

Inland or Internal Trade.

In a vast country scoured with numerous streams and great rivers internal trade is of no mean importance. The Mahomedan rulers constructed a number of good roadways. While the internal trade is mainly in the hands of Indians, the external trade is managed by foreigners.

Transport in India.

The means of transport may be classified as *natural* and *artificial*.

WATERWAYS.—The Indus, the Ganges, the Brahmaputra, the Irrawaddy and others with their tributaries are magnificent natural waterways navigable for thousands of miles. It is stated that there are 26,000 miles of navigable waterways in the great river systems of Northern India.

ROADWAYS AND RAILWAYS.—Up to the end of the 18th century there was no demand for prepared tracks, waterway communication by country boats was sufficient for the purpose. Transports used to be chiefly carried on by *pack-animals*, while travellers could ride, or be conveyed in palanquins or bullock-carts. The Mahomedan rulers of India constructed some trunk roads which the British are maintaining. The present mileage of metalled and unmetalled roads in India is about 2·7 lakhs. The British in India first appreciated the utility of fast communication after the Sepony Mutiny and the result was the rapid extension of *railways*.

Not very long ago the “teak-wood vessels of Bombay were considered greatly superior to the ‘oaken’ walls of old England,” and were superior to the ships of any other European country excepting the Portuguese. But to-day India has to depend entirely on British shipping.

Finally, the cheap posts and telegraphs, telephone, wireless and aeroplanes are conquering distances making it possible for rapid transmission of intelligence to the benefit of trade and commerce.

Characteristics of Foreign Trade.

An analysis of the nature of India's foreign trade shows that (a) she has an excess of exports over imports, (b) she has a hunger for precious metals, (c) she is increasingly exporting raw materials and food-stuffs and importing manufactures, (d) her trade with Great Britain is increasingly being diverted to non-Empire countries, (e) her imports consist of cheap articles she being a poor country, and (f) her foreign exchange is controlled by the Reserve Bank under the provision of the Reserve Bank Act of 1934.

Export and Import Trade of India.

The total foreign trade of India in merchandise in 1936-37 amounted to Rs. 327 crores, the exports accounting for Rs. 202 crores and the imports for Rs. 125 crores. In 1928-29, the total sea-borne trade was Rs. 602 crores, the exports and imports accounting respectively for Rs. 330 and Rs. 272 crores. The year was a record one.

An Analysis of Exports.

Food articles.—Export of Food articles comprises no less than one-tenth of the total exports. This is not desirable in a country where famine and scarcity are very common occurrences. Increase of manufactures can alone remedy the evil. The bulk of export rice comes from Burma. It is unfortunate that the rice market of the European Continent is to-day almost closed to India partly due to local production and partly due to the inferiority of Indian production.

Cotton, Raw and Manufactured.—Japan takes about Rs. 30 crores worth of raw cotton from India. Partly to the efficiency of production and partly to the prevailing low rate of wages in Japan (brought about by the manipulation of the exchange), she manages to oust Indian cotton manufactures from her own market. Japan cannot for many years to come dispense with Indian raw cotton.

Indian exports of yarn to England has almost ceased, while the Japanese market has been closed with the establishment of spinning industry in Japan. There was a time when the Indian competition with Lancashire in the Chinese market was very keen but to-day Japan is ousting both.

Oil-Seeds.—Oilseeds exported to Europe are used for soap and candle-making. We export seeds and import oils, the oil-cakes being lost to India in the process.

Jute and Jute Manufactures.—Europe manufactures cheap but showy carpets and rugs from raw jute while our manufactured exports comprise at most baled jute or gunny bags.

Hides and Skins.—A large proportion of the hides and skins are exported in the raw state while India possesses the cheapest and abundant tanning materials in her forests.

In short, the analysis reveals a record of missed opportunities and lost chances.

Analysis of Imports.

Cotton Piece-Goods.—England used to have the lion's share of the cotton piece-goods trade. But Japan is making steady progress. The British trade is declining due to (a) political agitation in India against Great Britain, (b) the Indian and Japanese competition, (c) the popularisation of the Khadi, (d) and the fall in the purchasing capacity of the Indians. England's share has fallen from a pre-war percentage of 97.1 to 75.2 in 1928-29, while Japan's share in the same period has improved from 3 to 18.4 per cent. The comparative

position of England and Japan in 1930-31 was 58.8 and 36.1 respectively. Recently, by the Indo-Japanese trade agreement Japan's quota of imports of cotton goods to India has been fixed.

Sugar.—India produces a little more than one million of the prohibitive import duties. In 1936-37 only 23,000 tons of sugar (worth Rs. 20 lakhs) was imported into India. The precarious condition of the Indian sugar industry has led Government to grant protection in 1931, as a result of which a very large number of sugar factories have been started in India, particularly in the United Provinces and Bihar.

Metals and Hardware.—The extension of preference to British iron and steel has stimulated imports while the shares of Germany and America are diminishing.

The Direction of Trade.

The following table shows the percentage of exports and imports which each of the following countries bear to the total trade of India.

SHARE OF COUNTRIES*	1904-14 PRE-WAR AVERAGE		1936-37	
	Exp. per cent.	Imp. per cent.	Exp. per cent.	Imp. per cent.
United Kingdom ..	23	64	32	38
Rest of the Empire	17	7	14	11
United States ..	7	3	9.5	6.5
Germany ..	10	6	4.6	9.7
Japan ..	7	2	15	17

Great Britain.—The imports from Great Britain are of a varied nature but 80 per cent. of them are confined to the seven articles, cotton and cotton manufactures, metals and ores, railway-plant, etc., hardware, woollens and apparel. The principal exports to the United Kingdom were tea, hides and skins, jute, raw cotton, food grains, etc.

* *Rest of the World.*—In 1936-37 in addition to the countries shown in the table, France, Italy, Belgium and the rest of the world's share in exports was 4.0, 2.4, 3.6, and 14.5 respectively and in imports 0.9, 1.0, 2.7 and 13.0.

Japan.—The imports comprize cotton piece-goods, cotton hosiery, hardware, glassware, stationery, boots and shoes, etc. The exports to Japan consists of raw cotton, pig iron, jute, iron and steel manufactures, lac, tobacco, manures, etc.

United States.—The imports include raw cotton, wheat, motor vehicles, mineral oil, cotton and rubber manufactures, etc. The exports consist of raw and manufactured jute, hides and skins, tea, lac and pig iron.

Germany.—Imports comprize synthetic dyes, machinery, paper, sugar, iron and steel manufactures, etc. The exports consist of jute, raw cotton, rice, oilseeds and hides and skins.

Total Sea-borne Trade in 1936-37.

IMPORTS—				Crores
Private merchandise	..	..	..	1,25·2
Government stores	..	..	..	2·5
Treasure	..	..	..	15·5
TOTAL				1,43·2
EXPORTS—				
Private merchandise (incl. re-exports)	..	..	..	2,02·4
Government stores	..	..	..	0·1
Treasure	..	..	..	30·2
TOTAL				2,32·7
TOTAL SEABORNE TRADE				3,75·9
Pre-war average	431	War average	431	
Post-war average	640	1935-36	354	

The Balance of Trade.

We have seen that measured in merchandise India exports more than she imports leaving a balance in favour of India. But the total debit and credit of a country cannot be calculated by mere reference to merchandise only,—other obligations must also be taken into account. India may have

an excess of exports, but she is a debtor to Great Britain. She has to pay (a) *interest* for the loans she has incurred in Great Britain, (b) *home charges* for the service of British civilians, soldiers, marines and bankers, etc., (c) expenses for Indian students prosecuting their studies in England, (d) price of stores purchased in England, etc. All these factors must be taken into account in estimating the *balance of accounts* between the two countries.

Free Trade and Protection.

GOVERNMENT INDIFFERENCE.—Industrial efficiency was early attained by England, so she naturally adopted the policy of *free trade*—a policy which does not countenance any interference with trade and aims at full and free competition. India, on the other hand, was backward in modern industrial technique. So it would have been proper for India to foster her young industries by a policy of protection. But as India was tied to the apron strings of Great Britain, she, to the detriment of her economic interests, was forced early to adopt the free trade principle. The result was that other countries, most of whom adopted at the initial stage the policy of protection, *e.g.*, Germany, the United States, Japan, and even Great Britain, began to capture the Indian market to the detriment of the industrial development of India. But the Government would not stir at all.

Fiscal Commission and "Discriminating Protection."

After the Reforms, Mr. Montagu, the then Secretary of State for India, declared that *fiscal autonomy should be conferred on India* and later on appointed a Fiscal Commission to determine the future fiscal policy of the country. The Fiscal Commission recommended that the system of *discriminating protection*, *i.e.*, protection only to those industries which show sure signs of future success, be adopted in India.

and with that end in view whenever an industry would apply for extension of protection a Tariff Board was to be appointed which would make recommendations to the Government on the basis of which the legislature would decide whether the industry should be given protection or not.

Conditions for Discriminating Protection.

(1) *The industry must be one possessing natural advantages, such as abundant supply of raw material, cheap power, a sufficient supply of labour, or a large home market.*

(2) *The industry must be one which without the help of protection either is not likely to develop at all or so rapidly as is desirable in the interests of the country.*

(3) *The industry must be one which will eventually be able to meet world competition without protection.*

Tariff Board.

Tariff Boards have so far recommended protection for Iron and Steel industry (three bills), the Ink industry, the Paper Industry, the Match industry, and finally the Cotton textile and the Sugar industry. Tariff Boards rejected the claims of magnesium, petroleum, coal and cement to protection.

Imperial Preference.

Imperial Preference.

ITS MEANING.—Towards the end of the last century Mr. Joseph Chamberlain conceived the policy of a diluted form of protection, known as *Imperial Preference*, according to which goods from the Empire countries are to get preference over other alien countries *either* in the form of a complete exemption from import duties on all the imports, *or* in the form of a comparatively lower rate of customs

duties than what were charged on imports from other foreign countries.

Lord Curzon's Government rejected it.

When at the beginning of the present century Lord Curzon's government made a critical survey of the preference proposals, it was found that the policy would not confer the least benefit upon India.

The Ottawa Agreement.

Imperial Preference was given almost a quietus for more than a quarter of a century. The Steel Protection Act of 1927 however imposed lower duties on British Steel and higher duties on Continental Steel. In 1932 at the *Ottawa Conference* the policy of Imperial Preference was accepted and Great Britain and India have each ratified the agreements through legislative action. India and England reciprocally lowered import duties in favour of each other. Opinions have been widely divergent on the merits of the Ottawa scheme, but on the whole it has now been generally agreed that India has not benefited much from it. The Indian Legislative Assembly has refused to renew the agreement in 1936. A new Indo-British Trade Agreement has recently been put into operation.

Trade Agreements.

A new feature of Indian fiscal policy is to be found in the bilateral commercial agreements. According to the Indo-Japanese Trade Agreement as revised in April 1937, Japan will import a minimum of 283 million yards of Japanese cotton piecegoods.

CHAPTER XII.

CURRENCY, BANKING AND PRICES.

I. Indian Currency.

A Short Monetary History.

MEDLEY OF COINS.—When the British came to India they found about one thousand kinds of coins, composed of both gold and silver, and of various weight and fineness, in circulation. The same coin was sometimes found not to have a circulation even in two adjoining districts. But this was not conducive to expansion of trade.

CURRENCY ACT AND FALL IN SILVER PRICES.—So the East India Company introduced by the first Currency Act, a *monometallic silver currency* in India in 1835. The mints were opened to the free coinage of silver. But since 1873, due to heavy mining of silver the value of silver began to fall and so more rupees began to exchange for the Pound (£). The fall was so rapid that nobody could guess where it would stop. Trade and finances suffered most from the fall and the consequent uncertainty. The demonetisation of silver by the bi-metallic countries of Central Europe, further accentuated the fall in the price of silver.

CLOSURE OF THE MINTS.—As there was no immediate prospect for the price of silver to rally, the Government closed the silver mints in 1893 on the recommendation of the Herschell Committee; made the rupee a token coin with a view to secure for it an artificial value of Rs. 15 to the £ (or Re. 1=1s. 4d. of gold). So long there was free coinage of silver. But with the closing of the mints in 1893, the responsibility of coining money devolved upon the government. The Currency Act of 1898 which consolidated the Act of 1893, however, proposed for the speedy introduction of gold currency but it was shelved by the introduction of the Gold Exchange Standard.

EVOLUTION OF THE GOLD EXCHANGE STANDARD.—The ratio that was fixed had to be maintained. The Government in its endeavour to maintain the ratio evolved unconsciously a form of currency which came to be known as the *Gold Exchange Standard*.

Gold Exchange Standard.

ESSENCE OF THE STANDARD.—Under the system the internal currency is to be composed of silver and paper money. Gold coins are not to circulate internally. Gold and silver coins may have full legal tender but the Government is under no obligation to pay gold coins when silver coins are offered for exchange. For foreign payments, *i.e.*, for making payments in gold-using countries, the Government is to arrange to keep a reserve of gold in a foreign country and to offer gold out of it at a fixed rate of exchange for silver coins received in India. Similarly, arrangements are to be made for giving facility to foreigners to remit their obligations to India at the fixed ratio of exchange.

How the Standard was maintained.

HOW THE STANDARD WAS MAINTAINED.—The Government maintained the exchange with the help of *two reserves*—by keeping the gold portions of the Gold Standard Reserve (this Reserve was created out of the profits of the rupee coinage) and the Paper Currency Reserve in London, and the silver portions of the same two reserves in India.

WITH INDIA GOVERNMENT.

Silver portions of the

- (a) Gold Standard Reserve.
- (b) Paper Currency Reserve.

INDIA.

Dr. B.

Cr. A.

WITH THE SECY. OF 'STATE.

Gold portions of the

- (a) Gold Standard Reserve.
- (b) Paper Currency Reserve.

ENGLAND.

Dr. C.

Cr. D.

Illustration.

When B in India wants to send £1 to D, his creditor in Loondon, he is to offer Rs. 15 to the Government of India Treasury to purchase a Sterling Draft (a Reverse Council) worth £1. The proceeds of the sale of the Draft in rupees are deposited in the silver portion of the Gold Standard Reserve kept in India. B transmits the Draft to his creditor D, who in his turn presents the Draft worth £1 to the

Secretary of State. The latter meets the Draft out of the gold portion of the Gold Standard Reserve. Thus when the silver portion of the Gold Standard Reserve in India is augmented, the gold portion with the Secretary of State diminishes correspondingly. On the other-hand, when C wants to remit £1 or Rs. 15 to A in India, he is to offer to the Secretary of State £1 to purchase in exchange a Council Bill worth Rs. 15. He is then to send the Bill to A in India, who in his turn is to realise Rs. 15 from the Government of India Treasury by presenting that Bill. As India has in average years a heavy balance of trade, it was found that the silver portion of the Gold Standard Reserve in India was quite insufficient to meet the demand for payments of the Council Bills sold by the Secretary of State. So the silver portion of the Paper Currency Reserve, which was ordinarily lying idle, began to be utilized for maintaining the Indian exchange. Council Bills were usually sold by the Secretary of State to realise the Home Charges and to facilitate the payments of British importers to their creditors in India.

Breakdown of the Standard.

But during the last great War when huge quantities of Council Bills began to flow to India, the India Government found it impossible to meet the Bills with rupees from the silver portions of the Gold Standard Reserve and the Paper Currency Reserve. There was also a heavy run upon the Paper Currency Reserve due to the reverses of the Allies at the early part of the War. So the sale of Council Bills had to be stopped and the standard suspended. Had silver been abundantly available and the content value of the rupee had not risen above 1s. 4d. the standard would not have broken down.

Hilton Young Commission.

According to the recommendations of the Hilton Young Commission, which was appointed in 1925, the exchange value of the rupee in terms of gold was altered from 1s. 4d. to 1s. 6d. The Commission also recommended the creation of a Reserve Bank for India. The Reserve Bank Act has

recently (1934) been passed. The Commission further recommended the introduction of the *Gold Bullion Standard*.

The War and Indian Currency.

The War led to a tendency to hoard silver coins and the Government was compelled to put one-rupee paper notes into circulation in July, 1940. These notes are legally different from the Reserve Bank notes for Rs. 5 and upwards, and are to be considered equivalent to silver rupees in all respects. Other measures for economising silver were also adopted. Victoria rupees and half-rupees were called in by withdrawing their legal tender quality and new silver tokens with reduced silver contents were put into circulation. In December, 1940, the Government issued new silver rupees with reduced silver content (50 p.c. silver and 50 p. c. alloy), which can be distinguished easily from the old rupees by the 'security-edge' device.

Essentials of the Gold Bullion Standard.

The essential features of the standard are (1) that the silver rupee and currency notes should be the ordinary money in circulation, (2) the stability of the gold value of the rupee is to be secured by making the silver and paper currency directly convertible into gold bullion, (3) this convertibility can be sufficiently secured by imposing statutory obligation on the currency authority to buy and sell gold without limit and for all purposes in exchange for silver and paper currency, and (4) to make gold bars easily available to the public in quantities of not less than 400 fine ounces. Gold is not to circulate as money.

The Present Currency System.

England gave up the gold bullion standard in September, 1931, and almost simultaneously the standard

was suspended in India too. At the present day, the Government of India is not bound to buy or sell gold at any specified price and the gold-value of the rupee varies with changes in the gold-value of the sterling. The rupee is linked with the sterling at the ratio of Re. 1: 18d. The system can therefore be called a *sterling-exchange standard*.

The Present method of making Foreign Payments.

The Reserve Bank accepts tender every week for the purchase of 'sterling' (bills) on London drawn by Indian exporters. The Bank purchases at a rate bordering on 1s. 6d. When the rupee tends to be cheap in terms of sterling the Reserve Bank sells sterling and thus makes sterling also cheap. Similarly, when the rupee tends to rise and the sterling to fall, the Reserve Bank buys more sterling. Thus the ratio is kept stable at 18d. The Reserve Bank, of course, does not purchase sterling direct from the Indian exporters. The Exchange Banks originally purchase such bills and sell them to the Government through the Reserve Bank and also to private parties.

Paper Currency.

Paper Currency used to be formerly issued by the Government of India and a Paper Currency Reserve was maintained to ensure the convertibility of the notes. At present the function of note-issue has been taken over by the Reserve Bank and its activities in this respect are regulated by Chapter III of the Reserve Bank Act. The notes can be of different denominations ranging from Rs. 5 to Rs. 10,000. A minimum reserve of 40 per cent. must be kept in gold coins, gold bullion or sterling securities, and another 25 per cent. in silver rupees. Eighty-five per cent. of the gold assets is to be held in British India. The total note-issue varies round a normal average of about Rs. 200

crores. The War however has led to some inflation and the total volume of paper notes current in India (excluding the One rupee notes) is now about 290 crores.

II. Banking and Credit.

The banking facilities in India are extremely inadequate and are greatly responsible for the industrial backwardness of the country. The banking operations in India are carried on by six, or more correctly, by seven different parties. They are:—

- (1) The *Indian bankers or shroffs and the Mahajans* or the money-lenders, (2) the co-operative banks and credit agencies, (3) the Joint-Stock banks, (4) the Exchange banks, (5) the Imperial Bank of India, (6) the Reserve Bank, and (7) the Government.

A. The Shroffs.

They carry on banking business on a small scale in large towns. They finance the internal trade and largely discount traders' *hundies*.

For co-operative banks read pp. 65—75. The other credit agencies are loan offices, land mortgage banks, insurance offices, and the *nidhis* and the *kuttuchittu* organizations in Madras.

B. The Joint-Stock Banks.

They are of two types—some managed by Indians such as the Central Bank of India, and others by Europeans such as the Allahabad Bank and the National Bank of India.

The *main objects* of these Indian Joint-Stock Banks are to attract deposits, to finance inland trade by discounting local and inland bills, and to give loans against various kinds of securities. They also do agency and safe custody work. Bank failures have not been infrequent. Proper precautions should be taken against it. The capital of these banks is also very inadequate and require to be increased.

It is better that there should be a comparatively slow growth rather than a rapid unhealthy progress. *With the improvement in communications, urbanization of the villages, growth of banking habit, state aid and sympathy, and provision for protection against unfair competition,* the present state of things may improve.

C. The Exchange Banks.

The Exchange Banks are all European, have their head offices in foreign countries, and number in all only eighteen. Recently, however, the Imperial Bank has become free to deal in exchange, and the Central Exchange Bank of India has been opened as a subsidiary to the Central Bank of India. Their main function is to finance the *external trade* of India, particularly the export trade. Recently they have also taken to financing of *internal trade*. Of late, they are steadily drawing deposits from Indians. They possess huge resources and are very old institutions. They have been sometimes accused of discriminating between Indian and European customers. It is a pity that the financing of foreign trade is almost entirely in the hands of foreigners.

D. The Imperial Bank India.

By the amalgamation of the three Presidency Banks, the Imperial Bank of India came into existence in 1920. It is a private institution. Before the establishment of the Reserve Bank, it performed all the general banking business for the government, managed the public debt and held all the Treasury balances. The bank had also some restrictions placed on its business. The Reserve Bank has undertaken these functions of late. The Imperial Bank at present is the biggest Indian joint-stock bank in the money market. In those places where the Reserve Bank has no branches it acts as the agent of the Reserve Bank.

E. The Government as a Banker.

It controls the exchange both ways, formulates currency policies, manages the post office savings bank, grants takavi loans, advances money for improvement of land under the Agriculturists' Loans Act and also for development and encouragement of infant industries, and offers loans to municipalities, district boards and co-operative

credit societies. Some of the important banking functions of the Government have recently been passed over to the Reserve Bank of India.

F. The Reserve Bank of India.

The Reserve Bank was established in India in 1935 as a shareholders' bank with a share capital of Rs. 5 crores. It is to serve the purpose of a Central Bank for India. It has already taken over some of the important functions which had hitherto been exercised either by the government or by the Imperial Bank of India. Its main functions may be summarized as follows:—

(1) It is to serve as the *bankers bank*, i.e., to serve as a bank to other banks; (2) it is to *serve as a banker to the Government*; (3) it is to exercise the *sole right of note-issue*; (4) it is to *control the sterling-rupee exchange*; (5) it is to *safeguard the financial solvency of the country*; and (6) it is to *direct the banking development* of the country.

CONSTITUTION OF THE RESERVE BANK.—It is to be managed by a *Central Board* consisting of a Governor, two Deputy Governors, twelve Directors and a nominee of the Government. There are also to be *local boards* of management at Bombay, Madras, Delhi, Calcutta and Rangoon, consisting of three Directors nominated by the Government and five directors elected by the shareholders. It will have a London office to look after the management of funds of the India Government in London.

G. Industrial Bank.

The formation of industrial banks is a crying necessity in India. In Germany industrial banks exercise great control over the business they finance and readily pioneer new ventures and issue and sell shares to help such undertakings. What the State has done in Germany to encourage the establishment of these banks should be imitated in India. The Industrial Commission made certain recommendations to make such banks a success.* The Banking Enquiry Committee

* (1) It should not advance too large a capital on any one enterprise; (2) it should advance limited amount of capital for permanent investment; (3) it should direct its funds to provide more for working capital; (4) it should advance capital with caution and should not float new companies; (5) its share capital should be very large.

suggested the establishment of Provincial Industrial Corporations aided by provincial governments.

H. Land Mortgage Banks.

The problem of agricultural indebtedness in India is very acute. Co-operative banks can never solve that problem. Long period as well as comparatively large amount of loans can only be arranged by the Land Mortgage Banks. More than 80 per cent. of the agriculturists in India have some or other form of right in the land. They can reap great economic advantages if they can borrow at an advantage on such security. The capital of such banks can be most economically raised on government guarantee. But this problem is a complicated one. Madras has gone much ahead of other provinces in organizing this type of banks.

I. The Co-operative Banks.

They have been discussed in detail in pp. 65-75.

J. Post Office Savings Banks.

They perform very important Banking functions in India. On the 31st March, 1935, the P.O. Savings Bank deposits amounted to 59.33 crores and cash certificates to 66.49 crores.

Deficiencies of the Indian Banking System.

(1) *Numerically banks are few in India, there being only one bank to every 2,700 square miles to England's one office to each nine square miles. The Indian per capita deposit is only Rs. 6, while in England the per capita deposit is Rs. 700.*

(2) *Varieties of banks are also few, the majority dealing only in short-term credit.*

(3) *The sizes of banks are very small.*

(4) *There having been no Central Bank until recently, co-ordination did not exist between our Currency and Banking Reserves.*

(5) *Branch banking, particularly in the mufussil, is absent, so the agriculturists have to depend upon the mahajans.*

III. Prices in India.

Rise in Prices.

Prices began to rise rapidly and steadily from the last decade

of the last century. This rise in prices was due to factors both operating from within and outside the country. The main outside influences were (1) *an increase in demand for staple commodities* due partly to rise in the standard of life and partly to use of food grains in manufacture, (2) *an increased supply of gold from the mines* and the consequent inflation of credit and currency, and the growth of (3) *industrial and commercial combinations*. The influences working within the country were the (1) *rapid increase of population* disproportionately to the food supply, and (2) *export of good grains and substitution of food crop areas by non-food or commercial crops*.

Effects of the Rise of Prices.

"There has undoubtedly been a real progress, an increase of wealth and a general diffusion of it, in consequence of an increase in the profits of agriculture, and a remarkable increase in wages greater than the cost of living in almost all parts of India during the period of rising prices."—*High Prices Enquiry Committee*.

Those Who were Benefited.—They are cultivators and the producers of commodities, small land-owning classes, and the labouring classes whose wages had risen.

Those Who were Adversely Affected.—Big proprietors of land, holders of Government and other securities, lawyers, medical practitioners and other professional classes whose income depended upon customary fees, employees in Government and private service, persons engaged in small industries, priestly classes, scions of old families, and wage-earners in cotton mills, breweries and paper mills were adversely affected.

Fall in Prices.

The post-war boom in trade did upset the equilibrium between production and consumption. Since 1925 prices have begun to fall, a tendency which became more and more pronounced as the years rolled on. This fall, however, was an evidence of the world tendency and a thing not peculiar to India. Of the many causes that may be attributed to the "economic depression" that had gripped the world, the most important were (a) over-production and under-consumption,

(b) fall in prices due to hoarding of gold by countries and individuals, (c) and loss of confidence and panic.

Economic Depression and India.

The effect was disastrous in manufacturing countries where millions of people have been thrown out of employment. In an agricultural country (like India) the effect was doubly depressing in as much as the fall in agricultural prices have been more pronounced than in the prices of manufactures. So the burden of agricultural indebtedness nearly doubled, and extremely low prices led to the fall in land values and in the rate of rent, arrested land improvement and threw out of cultivation some of the lower grades of land. There was some recovery towards 1935 and a slow rising tendency persisted till 1937 when a second recession took place. The War however again gave the prices an upward push in 1939.

CHAPTER XIII.

Public Finance.

Public Finance.

The income and expenditure of the state form the subject-matter of *Public Finance*.

There are several universally accepted canons of taxation and some of them may be said to have been observed in India. Government expenditure may be either *productive* or *unproductive*: it is productive when incurred for irrigation and railways and unproductive when spent upon famines. Taxes again are either *direct* or *indirect* (for advantages and disadvantages, read *Elementary Economics*, pp. 224-26). Instances of direct taxes are income tax and land revenue which are directly paid to the government by the persons taxed: and of indirect taxes are customs and excise. In the latter cases the taxes are shifted upon the consumers by the importers of goods or by the producers who originally pay the tax by adding the tax to the price of the goods. Some taxes may be *of the nature of a monopoly profit* from commercial transactions, *e.g.*, from Posts and Telegraphs, Railways, manufacture of opium, etc.

The financial administration of India and the collection and expenditure of the revenues, are subject to the control of the Secretary of State.

I. Growth of Provincial Finance.

DEVELOPMENT OF PROVINCIAL FINANCE.

Formerly, the whole administration of the finances of India was vested in the Government of India. In those days the whole of the public revenue after collection used to be sent to the Central Government, which made lump grants for expenditure from time to time to the Provincial Governments for the different branches of administration. The effect was demoralising. A loud and persistent clamour often secured the largest slice. Thus finance degenerated into a matter of scramble, while the Provincial Governments took no care about economy.

FIRST DECENTRALISATION, 1871.

So in 1871 Lord Mayo decentralised revenue by making over to the Local Governments certain heads of revenue and expenditure—of which the more important heads were police, education, jails, registration, printing, medical service (in part), roads, civil buildings, miscellaneous and Public Improvement. In addition to these heads a *lump fixed grant* was assigned to each local government.

SECOND DECENTRALISATION, 1877-82.

In 1872-82 further heads of revenue and expenditure, *e.g.*, excise, stamps, law and justice and some other items were transferred to local governments.

ARRANGEMENTS OF 1904 AND 1912. WHOLLY IMPERIAL, WHOLLY PROVINCIAL, AND DIVIDED HEADS.

In 1904 the Government of India received the whole of the revenue from Opium, Salt, Customs, Mint, Railways, Post and Telegraphs and Tribute from Indian States, while Registration fees and Departmental receipts from Police, Education, Law and Justice belonged *exclusively* to Provincial Governments. Land Revenue, Excise, Stamps, Income Tax and Forests were *divided* between the two in stated proportions (generally equal), as also the receipts from larger Irrigation Works.

In 1911 the settlements were revised and in 1912 were declared to be permanent.

THE ARRANGEMENTS UNDER THE REFORMS OF 1919.

The system of divided heads of revenue was entirely abolished.

CENTRAL HEADS.

1. Customs and Excise other than those on intoxicants.
2. Income Tax and Super Tax.
3. Salt.
4. Opium.

PROVINCIAL HEADS

1. Land Revenue.
2. Excise on intoxicants.
3. Stamps.
4. Registration fees.
5. Irrigation.

The provincial governments were empowered to impose certain taxes. The Meston Committee of 1920 finally made a clear allocation between the financial resources of the Central and Provincial Governments.

Federal and Provincial Finance.

Under the constitution of 1935, the following *broad outlines* of the allocation of revenue between the federal and the provincial governments have been made:—

(1) *Exclusively federal heads*:—The federal government is to raise and spend the following items of revenue, *e.g.*, (a) import duties (except on salt), (b) receipts from railways and other federal commercial undertakings (such as posts and telegraphs), (c) profits from coinage, (d) share in the profits of the reserve bank, (e) and corporation tax.

(2) *Partly federal and partly provincial*:—The receipts from the following heads may be assigned in part or in whole to the federating units, *e.g.*, (a) export duties, (b) salt duties, (c) excise on tobacco and other goods or drugs (except alcoholic liquors, opium, hemp, etc.).

(3) *Exclusively provincial heads*:—They include. (a) land revenue, (b) excise duties on intoxicants, (c) stamp duties (except those on commercial papers), (d) forests and other commercial undertakings, (e) miscellaneous items now enjoyed by the provinces, and (f) taxes on agricultural income.

(4) *Exclusively provincial but to be raised by the Federal Government*:—Though the federal government is to raise the taxes the net profits must be assigned to the provinces or the states where such taxes are levied, *e.g.*, (a) stamp duties levied on commercial papers (*e.g.*, cheques, bills of exchange, promissory notes, insurance policies, etc.), (b) succession duties other than on agricultural lands, (c) terminal taxes and taxes on fares and freights.

(5) *Income tax is a divided head*:—Special provisions have been made for the *Income tax* which has not been included in the foregoing lists. Federal government should entirely get the income tax derived in Chief Commissioners' Provinces and taxes payable in respect of federal emoluments. Of the remainder, 50 to 75 per cent. of the receipts shall be assigned to the Provinces and to those States where income tax is levied.

The Otto Niemeyer Report.

Sir Otto Niemeyer who was appointed by Parliament to make a detailed recommendation regarding the financial settlement between the centre and the federal units made the following recommendations:—

(1) Some provinces which would not be able to meet their

financial obligations shall receive the following subventions from the Central Government annually,—Bengal 75 lakhs, Bihar 25 lakhs, C. P. 15 lakhs, U. P. 25 lakhs, Assam 45 lakhs, Orissa 50 lakhs, Sind 105 lakhs and N. W. F. P. 110 lakhs.

(2) The above assistances need not be always given in the shape of cash grants but by *allocation of a percentage of revenue* or by *wiping of old debts due to the central government*. For example, by increasing the provincial share of the *jute export duty*—from the prescribed minimum of 50 per cent. to a maximum of 62½ per cent., Bengal will get a further revenue of Rs. 42 lakhs, and by wiping off her debt to the central Government, there may be a further assistance of Rs 33 lakhs through the saving of interest charges. The report recommended the wiping off of the whole debt of Bengal, Bihar, Assam, Orissa and the N. W. F. P. and a part of the debt of C. P.

(3) The provinces are to get 50 per cent. of the net amount of the *income tax receipts*.

Parliament and Indian Finance.

The control of Parliament over Indian finance is absolutely limited. The control is mainly confined to two matters. (1) the control of the expenditure of Indian revenues for military purposes beyond the Indian frontiers; (2) and annually to lay the Indian budget before the British Parliament to enable its members to offer suggestions, to ask for information and generally to criticise the policy of the Government in relation to India.

II. Heads of Central Revenue and Expenditure. (1940-41)

The chief heads of Imperial or Central revenue in 1940-41 were the following:—

PRINCIPAL HEADS.		IN CRORES OF RUPEES.	
1. Customs	37·86
2. Taxes on Income	14·20
3. Salt	8·20
4. Opium	·47

PRINCIPAL HEADS.		IN CRORES OF RUPEES.
5. Other heads .. ..	..	1.01
6. Central Excise Duties .. ..	..	11.44
7. Corporation Tax .. ..	..	5.30
Total Principal heads		78.48
1. Railways: Net Receipts as per railway budget* .. ..	..	37.82
2. Posts and Telegraphs: Net	..	1.07
3. Profit from Currency and Mint	..	1.24
4. Other receipts .. ..	..	13.13
Total Gross Revenue		1,31.74

(1940-41)

The chief heads of Imperial or Central expenditure for 1940-41 were the following:—

1. Defence Services .. ..	..	59.41
2. Debt Charges .. ..	..	12.11
3. Civil Administration .. ..	..	11.81
Total Principal heads		83.33

1. Civil Works .. ..	..	3.23
2. Pensions .. ..	..	3.37
3. Other expenditure .. ..	..	38.10
4. Surplus .. ..	..	.04
Total Expenditure		1,31.74

* Railways have a separate budget of its own.

Heads of Central Revenue.

1. **Opium.**—The Government of India has a monopoly of the production and sale of opium and the net revenue shown under this head is derived from the export trade, the revenue derived from opium consumed in India being credited to excise. There is a progressive diminution of revenue due to curtailment of the export to China that began in 1908. Through the League of Nations Convention in 1926 it is proposed to stop the exports altogether by 1935 for other than medicinal and scientific purposes. The total revenue derived is about Rs. 47 crores.

2. **Taxation:—Salt.**—All salt consumed in British India is subject to duty, the duty on imported salt being at the same rate as the excise duty on salt manufactured in India. *Of the total amount consumed in India from a quarter to a third is imported by sea.* The duty has been reduced to Re. $1\frac{1}{4}$ per md., or 2 pice per seer. It brings a total revenue of Rs. $8\frac{1}{4}$ crores. It is the most unpopular and most condemned tax as it taxes the poor's absolute necessary. But it is supported on the ground that it is a very old tax and gives an opportunity to the masses to contribute something to the state.

3. **Customs Duties.**—Customs duties are levied both on free trade and protective principles. *Customs duties to-day amount to heavy taxation on consumption.* The estimated revenue from the customs in 1940-41 was about Rs. $37\frac{1}{4}$ crores.

Customs duties are derived from duties levied (1) on *exports*, such as on raw jute, jute manufactures, raw hides and skins, and rice, and (2) on *imports*, some of which are levied on *protective principle* to protect some industries, such as that levied on cotton piece-goods, iron and steel manu-

factures, and salt and sugar, and many others on *free trade principle* only to bring in revenues to the state.

4. **Central Excise duties** are levied on the production of tea, salt, petroleum and kerosene. The excise duty on cotton piece-goods has been abolished. Excise duty (as opposed to those levied on intoxicants) is a kind of tax levied on production of goods within the country. It is expected to yield about Rs. 11½ crores in 1940-41.

5. **Income Tax and the Corporation Tax.**—The estimated yield of income tax in 1940-41 was about Rs. 14·20 crores. Income taxes in India fall under two categories, Income tax and Super-tax. The maximum rate of income tax is 18 pies in the rupee, while in the case of Super-tax it is as high as As. 6.

The minimum income taxed is Rs. 2,000. Higher incomes are taxed at a progressive rate. Corporation tax, *i.e.*, tax levied on the profits of companies, is now shown under a separate head. It is expected to yield 5-1/3 crores in 1940-41.

Central Heads of Expenditure.

We have already seen that the principal heads of expenditure include among others: (1) Defence Service; (2) Debt Services; and (3) Civil Administration.

1. **Military Services.**—As the Government cannot fully trust Indian soldiers, it has to depend upon the more expensive British troops, and as the Government frontier policy is directed to be aggressive, the cost of the military services in India is disproportionately high swallowing up more than 70 p.c. of the *net* revenue. Taking further into account interest and pension charges, it leaves a paltry few crores (not exceeding 5) for the ministrant activities of the

state for a population of 35 crores. The League of Nations recommended that the military expenditure of a country should not exceed 20 per cent. of its revenue. The military expenditure in 1940-41 was about Rs. 60 crores. The War has led to a huge expansion of military expenditure.

2. The Debt Services.—The total expenditure amount to about Rs. 14·12 crores. The total debt which did not exceed much over Rs. 550 crores in 1914, has exceeded Rs. 1,200 crores in 1932. Of the total public debt of India 75 p.c. are interest-bearing and about 60 p.c. are held in India while 40 p.c. are held in England.

3. Civil Administration.—Due to the Lee recommendations, not only the pay and emoluments of the higher services have been increased but there has been reduplication of unnecessary departments and posts.

The War and Indian Finance.

The War has led to a large increase in expenditure. In 1940 the Government of India imposed a tax of 50 p.c., on all 'excess profits' above pre-war profits provided the total income of the business amounted to Rs. 36,000 per year. Towards the end of 1940, a 25 p.c., surcharge was put on the income tax rates, and postal rates were also enhanced.

The budget for 1941-42 provide for further taxation:

- (a) The E. P. T. has been raised from 50 p.c., to 66-2/3 p.c.
- (b) The surcharge on income tax has been raised from 25 p.c., to 33-1/3 p.c.
- (c) A new excise duty has been placed on pneumatic tyres.
- (d) The imports duty on artificial silk has been enhanced.
- (e) The match excise duty has been doubled.

Even after all this, it is anticipated that the deficit in 1941-42 will amount to Rs. 13·85 crores.

III. Provincial Finance (Bengal).

(1941-42)

(In Crores of Rupees).

PRINCIPAL HEADS OF REVENUE—			PRINCIPAL HEADS OF EXPENDITURE—		
STAMPS	..	2.55	Police	..	2.39
Land Revenue	..	3.67	Justice	..	1.03
Excise	..	1.75	General Administration	..	1.76
Forests	..	.25	Jails, etc.	..	.51
Registration	..	.28	Education	..	1.89
Irrigation	..	.9	Medical	..	.59
Customs (Share of the			Public Health	..	.47
Jute export duty)	..	1.80	Agriculture	..	.44
Income Tax	..	.89	Industries	..	.27
Motor Vehicles	..	.21	Civil Works	..	2.29
Other taxes and duties	..	.51	Pensions	..	1.13
(a) Receipts from elec-			Famine Relief	..	.2
tricity duties, etc.					
(b) Taxes on amuse-			Total Principal Heads	..	12.61
ments, betting, etc.			Other Heads	..	2.76
Opening balance	..	1.93			
Other Heads	..	.20	Total Expenditure	..	15.37
Total Principal Heads	..	14.03			
Deficit	..	1.34			

Provincial heads of Revenue.

1. **The Land Revenue.**—The total yield is Rs. 3.15 crores in Bengal and is small in comparison with other provinces where permanent settlement does not obtain.

The *forest revenue* is derived almost entirely from the sale of timber and other forest produce. The forest department looks more to the preservation and improvement of this valuable property for the benefit of the people than for any immediate and maximum gain.

2. **Excise.**—The Excise revenue is derived from the sale of intoxicating liquors (ganja, toddy, etc.), hemp drugs, and opium consumed in the country, and is levied in the form of duty on manufacture and fees for sale licenses. The bulk of the revenue is derived from spirits. It yields a total of Rs. 1·75 crores to the Bengal Government.

3. **Stamp.**—The stamp revenue is derived from *judicial* or court-fee stamps and *non-judicial* or revenue stamps. The Judicial stamp revenue, which constitutes more than two-thirds of the whole is contributed by litigants. It seems that the government thrives on the litigation of the people. The Bengal Government derives about Rs. 3 crores from this head.

4. **Customs.**—Bengal as a jute growing province gets Rs. $1\frac{3}{4}$ crores out of the jute export duties. This source has served as a landslide to the government and brought in great relief. World demand for jute determines the amount of this duty.

5. **Income Tax.**—The financial arrangement of the India Act of 1935 has enabled Bengal to secure a share of the income tax receipts. It amounted to nearly Rs. 75 lakhs in 1941-42.

6. **Salt.**—The Government of India in order to protect the salt industry in India has levied additional import duty on foreign salt. Provinces which consume imported salt is entitled to a share of the duty collected.

Provincial Expenditure.

Under the Act of 1935 the provincial expenditure may be classified as 'voted', that is expenditure which is subject to the vote of the legislature, and that which is 'charged' on the revenues of the province.

The Government of Bengal spends Rs. $2\frac{1}{8}$ per head of the population. Of this amount the cost on the head of administration is Re. 1/4/- and the other half is spent as follows: As. 8 for

education, medical relief and public health, and As. 12 for police protection.

Due to terrorist activities the expenditure on *police* was large. This head is to be substantially curtailed as terrorism has been given up as a policy. The administrative expenses are not only top heavy but has increased enormously since the inauguration of provincial autonomy in 1937. The expenses on education is only Rs. 1½ crores. The main burden is still left on private enterprise. The introduction of compulsory primary education is still held up for want of funds. *Agriculture and industries* which are to support 5 crores of people costs the government only Rs. 32 lakhs. Expenditure on *medical relief and public health* is hopelessly inadequate.

Provincial Rates.

Provincial rates, which exclude municipal taxes, are levied chiefly for the construction and repair of roads, the up-keep of schools and dispensaries, village sanitation, and for other local expenditure. They are generally assessed on the annual "assets" or rent value of agricultural land.

At the present time a general cess on the annual value of land is levied throughout British India for local purposes. The proceeds are administered partially or wholly by district boards and other local authorities.

Local Rates.

The taxes levied by Municipalities, Rural or Union Boards, Local Boards, and District Boards are known as local rates. For Municipal functions and finances, read *Indian Administration*, Pp. 162-63; for District and Local and Union Boards' Functions and Finances, read Pp. 157-58.

Improvement Trusts (p. 168) derive their finances from terminal rates and other special taxes.

The Port Commissioners derive their finances from terminal rates and other special taxes.

The Port Commissioners derive their income from the dues they levy on shipping and goods, the fees they charge for services rendered, and from loans which they contract to improve the ports.

The aggregate income of all the Municipalities (777 in number) taken together averages Rs. 38 crores, of local and district boards Rs. 16 crores and of the Port Commissioners of the Chief Indian ports about Rs. 1½ crores.

IV. India's Public Debt.

India's public debt amounts to about Rs. 1,236 crores. The Government of India has to pay annually interest amounting to Rs. 51 crores, *i.e.*, about 25 per cent. of the total expenditure of the central and the provincial governments. India's Public Debt may be classified as *productive* or *unproductive*. A debt is called a productive one if the public works constructed with the borrowed capital yields a profit which covers the rate of interest at which the capital has been originally borrowed, as in the cases of Railway or Irrigation Works. An unproductive debt is one which has been borrowed to meet unproductive expenses, *e.g.*, for famine relief, waging of wars, etc., or for making gifts to the British Government as had happened during the last Great-War.

In the fitness of things, the British Government should bear the burden of debt which has been incurred to secure British imperial interests, *e.g.*, the cost of the Sepoy Mutiny, and wars waged against China, Egypt, Burma, Afghanistan, etc.

V. Home Charges.

The following is a table showing the net expenditure in England of the Government of India, known as the Home Charges, chargeable on the revenues of India.

	Rs. in lakhs.
Interest and management of debt, and payment of interest and annuities on account of railways and irrigation work	1173
Payment in connection with Civil Departments in India	105
Army and marine effective charges	1064
Stores of all kinds charged against revenue (Railway borrowings)	859
Miscellaneous	138
Non-effective charges (pensions and gratuities)	367
TOTAL ..	Rs. 37 crores.

These figures show that nearly Rs. 20·32 crores out of a total of Rs. 37 crores consisted of payments on accounts

of capital and materials supplied by England, and belonged to a commercial rather than to an administrative class of transactions.'

Are the Home Charges a 'Drain'?

Sir Theodore Morrison says that it is quite a gross mistake to say that the whole of India's debt constitutes a drain. 'It is only that portion of India's debt for which in that year she receives no material equivalent in goods or money that can be called a *drain*.'

The following analysis of the Home Charges show, says Sir Theodore, that India gets some equivalents for her payments.

1. As most of the foreign capital employed in India is borrowed by Government, India gets the capital at a very *low rate* of interest due to the guarantee of the Secretary of State.

2. *Cost of stores.* For the payment under this head India receives a material equivalent just as much as she receives when her private merchants import goods from abroad.

The balance that remains, a sum of about Rs. 20 crores, may not unreasonably be said to be a charge for India's political relations with England. This sum may be called the *political drain*.

DR. BANERJEA, on the other hand, thus concludes:—
"The Home Charges present two aspects—one political and the other economic. Roughly speaking, about one-third of the amount is spent in England owing to the political relations of that country with India, and the remaining two-thirds represent payments which are really transactions of an economic character. It would be a mistake, therefore, to regard the whole amount of the Home Charges as a drain

upon the resources of the country. But, however legitimate and justifiable some of the payments may be in themselves, there is no denying the fact that a *large portion of the total revenue of India goes annually out of the country without any direct return*. This certainly is not satisfactory. Every effort ought therefore, to be made, not only to check the further growth of the Home charges, but to reduce as much as possible their present size."

Floud Commission Recommendations

The Commission noted the following *defects* of the present land revenue system:—(1) The State loses revenue from Rs. 2 to 8 crores; (2) state gains nothing from increment in the value of land; (3) state gets no income-tax from agricultural income; (4) Zemindars have made no land improvement; (5) it has bred evils of absenteeism; (6) sub-infeudation has gone down to 50 or more intermediate, interests in some cases; (7) has bred litigation; (8) provides no remission of rent in cases of drought or draught; (9) has led to rapid growth of bargadars.

Majority recommendations:—(1) The Zemindari system is to be replaced by raiyatwari system; (2) the state is to acquire the Zemindaries at fifteen times the profit.

Minority recommendations:—(1) Bad economic condition of the raiyats is not due to land systems alone; (2) state acquisition will not benefit the raiyats; (3) acquisition will suddenly cut off $2\frac{1}{4}$ million persons from land leading to a great social upheaval; (4) money thus secured would not add much to industrial capital; (5) tenants who comprise the majority of voters will someday get their rent reduced according to their whims.

EXERCISES.

ELEMENTARY ECONOMICS.

Chapter I. Introductory.

1. What is your idea of the scope of Economics? (Cal. 1933).
2. Define Economics. Does knowledge of Economics inculcate love of money? What is the subject matter of Economics? (P. U. 1928). Give the relation of the Science to Ethics, Politics, History and Sociology. (U. P. Board, 1933).
3. "Economics is the science of wealth." Do you agree with this definition? Give reasons in full. (Cal. 1929; U. P. 1935).
4. Economics is the study of man in the ordinary business of life." Explain. (Cal. 1933).
5. Discuss the value and limitations of the chief methods of economic study. (Cal. 1932).
6. Define the term Economic Laws. (Cal. 1933). What is the nature of Economic Laws. (P. U. 1928). How far is the study of Economics helpful in practical life. (U. P. 1932).

Chapter II. Development of Economic Life.

7. Trace the growth of Economic life. What is the evolution of economic order.

Chapter III. Some Fundamental Concepts.

8. Define Wealth. Discuss whether or not the following come under your definition:—(a) the climate of a country; (b) the natural and acquired qualities of its people; (c) its good natural harbours; (d) its unworked mineral sources. (P. U. 1930).
9. State and explain the law of diminishing utility. Are there any exception to this law? (U. P. 1935).

Chapter IV. Production: its Basis.

10. Explain Production. What are the factors of production? (Cal. 1927). What are the leading factors of production? What are the chief principles determining the remuneration of each of these factors? (Cal. 1932). Define Production and Consumption. (P. U. 1928).

Chapter V. Physical Basis of Production.

11. State what is meant by the term "Law" in Economics? Describe clearly the terms *Extensive* and *Intensive* cultivation. (U. P. 1928, '29).

12. Explain the Law of Diminishing Returns. Does it operate equally in industry and in agriculture? Support your answer by reasons. (Cal. 1929).

Chapter VI. Labour.

13. Distinguish between productive and unproductive labour. (Cal. 1931).

14. What are the causes of efficiency of labour? How can you improve the efficiency of Indian labour? (Cal. 1929, U. P. 1930, P. U. 1929).

15. State the theory of population enunciated by Malthus. How far is it applicable to modern India. (P. U. 1929).

16. What are the various factors on which the efficiency of labour depends? (Cal. 1936).

Chapter VII. Capital.

17. How does Capital originate? Discuss the part played by Capital in production. (Cal. 1926; P. U. 1928).

18. What are the main causes which influence the accumulation of wealth in a country? How far are those causes present in India today? (Cal. 1928).

19. Distinguish between Fixed and Circulating Capital. (Cal. 1931, 1940).

20. Indicate the part played by Capital in production. (Cal. 1936).

21. Define Capital, and indicate briefly the services rendered by Capital in production. (P. U. 1930).

Chapter IX. Organization: Division of Labour.

22. Explain the advantages of Division of Labour. (Cal. 1926).

23. Mention the advantages of the different forms of division of labour. (Cal. 1933).

24. Carefully explain division of labour. How does it arise? Give examples. (U. P. 1928).

25. Discuss the effects of the introduction and use of machinery. (Cal. 1940).

Chapter X. Localisation of Industries.

26. Examine the causes leading to the localisation of industries in particular areas. (Cal. 1937). What are the chief advantages and drawbacks of localisation of industries? Illustrate your answer with Indian examples. (1941).

Chapter XI. Large-Scale Production.

27. Compare the relative advantages and disadvantages of large-scale and small-scale production. (Cal. 1928, 1930, 1935; U. P. 1928).

28. Mention the advantages of large-scale production. Can a small producer hold his own in the presence of large-scale manufacturers in modern times? (Cal. 1933).

Chapter XII. The Organizer.

29. What are the functions of the entrepreneur in modern industrial organization. (Cal. 1928, 1930).

30. What are the various ways by which a typical joint-stock company raises its Capital. (Cal. 1934).

31. Explain the nature of the services performed by the entrepreneur in modern business organisation. (Cal. 1941).

Chapter XIII. Laws of Returns.

32. Explain carefully the terms Diminishing and Increasing Returns. (P. U. 1929).

Chapter XIV. History of Productive Effort.

33. Explain why the pastoral stage permits a denser population than the agricultural stage (U. P. 1927).

Chapter XV. The Problem of Exchange.

34. Mention the difficulties and inconveniences attending exchange by barter. Show how these difficulties are overcome by the introduction of money. (Cal. 1934).

Chapter XVI. Economic Markets.

35. Define a market and distinguish between a local market and a world market. Give illustrations. What are the causes of extension of markets? (All. 1928).

36. Define Demand and Supply. Define Demand Schedule. (U. P. 1926).

37. Define 'value in use' and 'value in exchange'. (Cal. 1930).

38. What do you understand by elasticity of demand? Consider the elasticity of demand in the case of wheat, salt, watches, furniture. (Cal. 1930).

Chapter XVII. The Theory of Value.

39. How is value determined? Give examples. (Cal. 1927).

40. "Value is determined by the general relations of demand and supply." Explain and illustrate. (Cal. 1928).

41. How is monopoly price determined? (Cal. 1939).

42. What is meant by 'market' in economics? What are the conditions that govern the extent of a market. (Cal. 1940).

Chapter XVIII. Money.

43. Describe the functions of money. Explain why the precious metals came to be chosen as money. (Cal. 1928, 1938). Describe the principal functions of money. (Cal. 1935).

44. What do you understand by 'token money' and 'standard money'? Illustrate your answer with reference to the Indian rupee. (Cal. 1928).

45. What are the chief characteristics to be looked for in the commodity selected as 'money'? Discuss the comparative fitness of precious metals, precious stones and staple food-stuffs to serve as 'money'. (Cal. 1930).

46. 'Bad money always drives good money out of circulation.' Name and explain the law. How does the good money disappear? (Cal. 1933).

47. Describe the disadvantages of the issue of unconvertible paper currency. (Cal. 1936).

48. Describe the principal functions of money. 'A cheque is not money'. Explain. (Cal. 1935).

49. Distinguish between standard and token money. Illustrate with examples. (Cal. 1937).

50. State the functions of money. How is production facilitated by the use of money? (Cal. 1941).

51. State and explain Gresham's Law. (Cal. 1937).

Chapter XIX. Credit and Banking.

52. Describe a bill of exchange and the economic service it renders. (Cal. 1936; 1940).

53. 'A Cheque is not money.'—Explain (Cal. 1935).

54. What are chief functions of banks? (Cal. 1935).

55. Distinguish between a cheque and a bank note. "The use of the cheque involves the element of belief to a much greater extent than that of a bank note." Explain how. (All. 1929).

56. Explain clearly what is a cheque. How does it differ from paper money? (Cal. 1940).

57. Describe the economic functions of banks. Show how a good banking system can further the economic well-being of a country. (Cal. 1939).

58. "Banks are the dispensers of Credit." Discuss the statement. (Cal. 1941).

Chapter XX. International Trade.

59. Which would you advocate for India—Free Trade or Protection, and why? (Cal. 1936).

60. Describe the advantage which a country derives from foreign trade. (Cal. 1937).

61. State the infant industry argument for protection. How far is it applicable to Indian condition? (Cal. 1941).

Chapter XXI. The Problem of Distribution.

62. What are the chief principles determining the remuneration of the factors of production? (Cal. 1933).

Chapter XXII. Rent.

63. Define 'economic rent' of land. What factors enter into the determination of rent in India? (Cal. 1930).

64. Define 'Rent.' Would there be rent if all the land were equally desirable? Give reasons. What would be the effect upon rent if a railway opened up a new country? (All. 1926).

65. Set forth and criticize Ricardo's theory of rent. (Pun. 1930).

66. Carefully explain the following terms: (a) unearned increment, (b) extensive cultivation (for answer, read p. 46); and (c) *national dividend*. (All. 1927).

67. 'The price paid for the use of land tends to approximate to the producer's surplus, i.e., to the economic rent.' Explain the statement. (Cal. 1935).

68. Explain Ricardo's theory of rent. (Cal. 1939).

Chapter XXIII. Wages.

69. Distinguish between money wages and real wages. (Cal. 1936).
70. Explain why wages rates vary in different occupations within a country. (Cal. 1937).
71. How wages are determined. (Cal. 1940).

Chapter XXIV. Problems of Labour.

72. What is a Trade Union? What are the effects of Trade Unions on wages. (Cal. 1933).
73. Explain the aims and methods of Trade Unions. (Cal. 1934).
74. Enumerate the main features of the existing factory legislation in India. (P. U. 1929).

Chapter XXV. Interest and Profits.

75. Write an essay on the nature and necessity of interest. (The answer should not exceed 200 words). (Pun. 1930).
76. Distinguish between Net and Gross interest and account for the disparity between them. (All. 1930).
77. Compare Interest and Rent. Under which head would you place the return from capital permanently invested in land? (All. 1927).
78. Government used to borrow at $3\frac{1}{2}$ per cent. before the War. During the War, Government had to borrow at 6 per cent. What are the causes for the increase in the rate of interest on government loans. (All. 1926). Discuss the relation between the rate of interest and the growth of capital. (All. 1929).
79. "The interaction of the forces which influence borrowers and lenders results in a price for the service of capital—the rate of interest." Elucidate this statement. (Cal. 1938).
80. Analyse carefully the constituent elements of profits. Enumerate some of the forces which limit the supply of business ability. What do you mean by 'Profits'? Should the income of an inventor be classified as wages or profits? (All. 1928).
81. Distinguish between gross interest and net interest. Show how the latter is determined. (Cal. 1941).

Chapter XXVI. Effort and Satisfaction.

82. Critically examine the following statements:—

- (a) The best way to benefit a community is to spend one's income.
- (b) From the Social point of view saving is always better than spending. (Cal. 1934).

83. Is it of any consequence to society how a person spends his income? Should society interfere with individual liberty in spending?

84. What is the relation between consumption and production? (All. 1927).

85. Distinguish between (a) necessities and luxuries, (b) necessities for life and necessities for efficiency. Point out the importance of these distinctions. (All. and Pun. 1929).

Chapter XXVII. Measurement of Human Wants.

86. What do you understand by Consumers' Surplus and Producers' Surplus. (P. U. 1930).

87. What are family Budgets? What purposes do they serve (a) to the householder, (b) to the economists? (U. P. 1928).

Chapter XXVIII. Public Finance.

88. State clearly what you understand by the terms direct and indirect taxes, what are the main objections to the indirect forms of taxation? (Cal. 1930).

89. How equity in taxation may be attained? (Cal. 1932).

90. Explain the term 'budget'. What do you mean by a deficit budget? How can deficit in budget be ordinarily made good? Refer, if possible, to the financial condition of the province of Bengal. (Cal. 1933).

91. If you were Financial Member of the Government of India and had to raise additional revenue of two crores of rupees, what principles would you bear in mind in introducing new taxes or in enhancing old ones? (Pun. 1930).

92. Distinguish between direct and indirect taxes. Discuss their respective merits and demerits. (Cal. 1935, 1940).

93. State and explain the Canons of Taxation.

94. The rich should be taxed more in proportion than the poor. Why? Do all taxes obey the principle? (Cal. 1931).

EXERCISES.

ECONOMIC PROBLEMS OF INDIA.

Chapter I. Natural Environment.

1. Describe the economic consequences of variations in rainfall in India. (Cal. 1939).
2. "The prosperity of India depends entirely on monsoons." Elucidate this proposition. (Cal. 1937).

Chapter II. The Social Structure.

3. Illustrate the influence of the prevailing social and religious customs on the economic life of the country. (Cal. 1933).
4. Discuss the economic aspects of the joint family and the caste system in India. (Cal. 1935).
5. What are the chief factors which influence the growth of population in India. (Cal. 1937).

Chapter IV. Economic Resources of India.

6. Give a brief account of India's mineral resources. (Cal. 1933).
7. Give an account of coal and iron resources of India. (Cal. 1926, 1938).
8. 'India possesses an abundance of natural resources and a plentiful supply of cheap labour, but she lacks capital, enterprise, and organization. These defects are, however, remediable.' Elucidate the statement. (Cal. 1939).
9. Discuss the importance of forests in the economic life of India.

Chapter V. Agriculture and Rural Finance.

10. 'Though agriculture is the primary industry of India yet it lags far behind that of other countries. Why is Indian agriculture backward? Can you suggest measures for its improvement? (Cal. 1926).
11. What steps have the Government taken to improve agriculture in India? (Cal. 1927).
12. What are the main drawbacks of agriculture in India? Suggest some important measures for its improvement. (Cal. 1931).

13. Consider briefly the agricultural indebtedness in Bengal and suggest methods for removing this evil. (Cal. 1929).

14. Indicate the main causes of agricultural indebtedness in India, and suggest methods for alleviating the burden. (Cal. 1932). Describe the measures that have been adopted in India to check the indebtedness of the agriculturist. (Cal. 1937).

15. What are the causes of agricultural indebtedness in India? Suggest some remedies. (Cal. 1935).

16. State the fundamental principles of co-operation. In what different ways has co-operative movement helped to remove the agricultural indebtedness in India? (Cal. 1926).

17. Explain fully the organisation of a rural co-operative credit system? What qualities are required for its success? (Cal. 1929).

18. Explain fully the organisation of a rural co-operative credit society. What qualities are required in the villagers for its success? (Cal. 1931).

19. Indicate the various lines on which the co-operative system of India has benefited the country. (Cal. 1932).

20. Trace the development of the Co-operative Movement in India. (Cal. 1934).

21. Describe the functions of Co-operative Banks in India. (Cal. 1936). Describe the main features of the co-operative movement in India. (Cal. 1939).

22. "One of the Principal handicaps of Indian agriculture is the endless subdivision and fragmentation of land. Elucidate the statement. (Cal. 1941).

Chapter VI. Railways and Irrigation.

23. 'Railways are an important factor in the economic development of a country.' Explain. Cal. 1926).

24. Discuss the influence of railway development in India—on Indian industries and her internal and external trade. (Cal. 1928).

25. Discuss the influence of the development of the railway system in India upon (a) the rural economy of the country and (b) its foreign trade. (Cal. 1932).

26. Discuss the economic advantages of the development of railways in India. (Cal. 1935).

27. Write a note on the various types of irrigation works in India and indicate their importance. (Cal. 1936, 1938).

Chapter VII. Industries.

28. Indicate the various ways in which you can develop the cottage industries in India. (Cal. 1928).
29. Describe the utility of rural industries in India. Indicate the methods by which such industries may be fostered. (Cal. 1940).
30. Enumerate some of the principal cottage industries of Bengal which can be carried on as subsidiary to agriculture. Suggest how best they can be fostered or preserved. (Cal. 1932).
31. Describe some of the more important cottage industries of India. (Cal. 1936).
32. What according to you, are the conditions necessary for the industrial progress of a country? Do they exist in India? (Cal. 1929).
33. What do you think should be the attitude of the government of India towards industrial development in India? (Cal. 1929).
34. Write a note on the Indian Tariff Board. (Cal. 1927).
35. Estimate critically the part played by foreign capital in Indian industrial development. (Cal. 1930, 1938).

Chapter VIII. Labour and Capital.

38. Discuss briefly the causes of the low level of efficiency of industrial labour in India. (Cal. 1934).

Chapter IX. Famines in India.

39. Indicate the causes of Indian famines. (Cal. 1926). What steps have been taken to fight them. (Cal. 1929).
40. What is a famine? Explain the measures that are adopted in India to prevent and to combat famines. (Cal. 1929).
41. What are the principal causes of famines in India? Describe briefly the measures adopted for the prevention and relief. (Cal. 1931).
42. Describe the organization of famine relief in India. (Cal. 1935).

Chapter X. Land Revenue.

43. 'The Zemindari system is at the root of the poverty of the Bengal peasant.' Do you agree with this statement? Give reasons for your answer. (Cal. 1934).

44. (a) "Rent of agricultural land in India depends on the interaction of three forces:—Custom, competition and legislation." Explain the statement. (Cal. 1937).

45. Discuss the merits and defects of the Zemindari system of land settlements as prevailing in this country. (Cal. 1936).

46. Examine the merits and defects of the permanent settlement of land revenue in Bengal. (Cal. 1939). Describe the main features of the Permanent Settlement of land revenue. What are its merits and drawbacks. (Cal. 1941).

47. (b) Examine the merits and defects of the permanent settlement of land revenue in Bengal. (Cal. 1939).

Chapter XI. International Trade.

48. Point out the chief characteristics of India's foreign trade. (Cal. 1934). What is meant by balance of trade? Why has India in normal years, a favourable balance of trade? (Cal. 1938).

49. Give some idea of the distribution of India's foreign trade (a) by principal countries, and (b) chief commodities. (Cal. 1935).

50. Which would you advocate for India—Free Trade or Protection, and why? (Cal. 1936).

51. Give an account of India's foreign trade. (Cal. 1940).

52. State the infant industry argument for protection. How far is it applicable to Indians conditions. (Cal. 1941).

53. What is meant by 'discriminating protection.' What are the principal industries which have been given protection in India? (Cal. 1940).

Chapter XII. Currency, Banking and Prices.

54. Describe the functions of the following types of banks in India:—(a) Co-operative banks. (b) Postal savings banks, (c) Exchange banks. (Cal. 1936). Give an account of the principal types of banks in India. (Cal. 1938). Explain the constitution and functions of (a) rural co-operative credit societies and (b) land mortgage banks in India. How far have they succeeded in achieving their aims? (Cal. 1941).

